FINANCIAL TIMES

World Business Newspaper http://www.FT.com

MONDAY MAY 18 1998

Crédit Lyonnais
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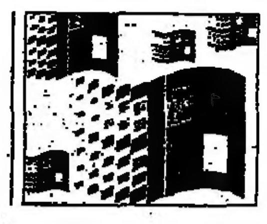

Windows 98
The FT test drives the latest version
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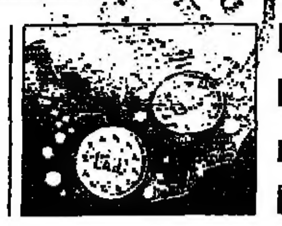

Monetary union
Europe's stock markets revitalised by the euro
Barry Riley, Page 15

Today's surveys
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Separate sections

WORLD NEWS

Indonesia tries to restart economy as Jakarta riots subside

Indonesia's banking system is due to reopen today as the government tries to restore order and restart the economy after a wave of rioting that threatens President Suharto's grip on power. While quiet returned to Jakarta and some shops resumed trading, riots flared in other cities. Page 16; Economy paralysed, Page 3; Editorial Comment, Page 15

India plans new mid-range missile
Indian nuclear scientists said last week's tests confirmed the country's capability and would be followed by development of a new intermediate range missile. Page 4; Hypocrisy and the bomb, Page 14; Observer, Page 15

Clinton backs China probe
US president Bill Clinton will support an investigation into claims that Chinese donations to his 1996 election campaign had swayed foreign policy decisions. Page 2; Clinton presses Yeltsin, Page 5

Kohl's keynote speech
The eyes of 1,001 delegates and 700 special guests will be on German chancellor Helmut Kohl today when he addresses the annual congress of his Christian Democratic Union. Page 6

Argentina expels Iranians
Seven Iranians, including three diplomats, have been ordered out of Argentina amid suspicions of Iranian involvement in the 1994 bombing of a Buenos Aires Jewish centre in which 86 died. Page 2

Mountaineer's body found
French mountaineer Chantal Mauduit, 34, was found dead in her tent with her sherpa, also dead, on the slopes of the world's seventh highest peak, Mount Dhaulagiri I in Nepal.

Corsican couple quizzed
Prominent Corsican businessman Michel Valentini and his wife Eridan have been arrested on suspicion of bank fraud, embezzlement and misappropriation of public funds.

Beijing worried over Tibet
Beijing fears that heightened tensions with India could lead to pressure on China to start an international dialogue on its rule in Tibet, diplomats say. Page 4

Korean general strike
The Korean Confederation of Trade Unions, which represents workers in export industries, is to stage a general strike on May 27 to protest against unemployment. Page 4

EU plan for free flow of goods
EU countries could be obliged to take action to ensure goods can still move freely during industrial blockades of frontiers, under plans to be discussed today. Page 6

Estrada picks his cabinet
Joseph Estrada, the populist vice-president poised to succeed Fidel Ramos as president of the Philippines next month, has started assembling his cabinet. Page 4

Lebed waits for poll result
Russian presidential hopeful Alexander Lebed may make a second bid for the Kremlin if Krasnoyarsk, a province in Siberia, elects him as governor in weekend polls. Page 6

Troops mass on disputed border
Thousands of Eritrean troops were moving to an area where soldiers from neighbouring Ethiopia took up positions in a disputed border territory last week.

Haider seeks a springboard
Austrian far-right leader Joerg Haider hinted he might seek the governorship in his power base of Carinthia as a springboard to national power.

BUSINESS NEWS

US and EU locked in talks on lifting sanctions threat from Cuban trade

US and European officials were locked in talks late yesterday in an effort to reach agreement on a transatlantic trade deal that could lift a US threat of sanctions against European companies that do business in Cuba, Iran and Libya. The two sides hoped to reach a deal by the start of today's EU/US summit in London. Page 5

Imperial Chemical Industries' planned $750m sale of Tioxide, its titanium dioxide subsidiary, to DuPont has become embroiled in a US investigation into its impact on competition in Europe and Asia. The sale is part of a $3bn deal in which DuPont acquired ICI's polyester business. Page 17

Federal-Mogul, US engine parts group, could start making car brakes in a move that would reverse recent consolidation of the industry. The move comes as Dana, another US group, awaits approval of its $3.5bn acquisition of Echlin, a car parts group with brake operations. Page 17

Kvaerner, Anglo-Norwegian engineering and construction group, blamed "unsatisfactory" performance by shipbuilding and oil and gas divisions for flat first-quarter profits despite a rise in sales of 31.5 per cent. Page 19

Volvo, Swedish car group, is planning to cut its supplier base to reduce purchasing costs and improve margins. It now obtains components from about 400 "tier one" suppliers and hopes to cut that to 100 by 2005. Page 17

World Trade Organisation opens a ministerial meeting in Geneva today which marks the 50th anniversary of the multilateral trade system. Page 7

Fortis, Belgo-Dutch financial services group, today will announce an agreed $11.3bn all-share bid for Belgium's Générale de Banque to create one of Europe's top 10 banks. Page 17

Decaux, the French group competing with Clear Channel of the US to take over More Group, may have to dispose of some assets in continental Europe if its bid for the UK bus shelter, billboards and transport advertising company succeeds. Page 18

Asda and Kingfisher's two weeks of talks that could have led to a £13bn merger of the UK retailers have collapsed. Sources close to Kingfisher say the talks were on the possibility of merger; Asda contends they looked at ways of working together in overlapping trading areas. Page 18

Singapore Airlines reported a 0.3 per cent increase in group profit to S$1.04bn (US$634m) for the year ended March 31, but the results included the period before the economic crisis took hold. Page 21

Group life policies managed by Japan's 43 life assurance companies fell 25 per cent in the 11 months to February, the fall caused largely by corporate clients cancelling contracts. Page 21

Saga Petroleum, Norway's largest independent oil producer, unveiled a cost-cutting programme and management overhaul following a strategic review by new chief executive Diderik Schnitler. Page 20

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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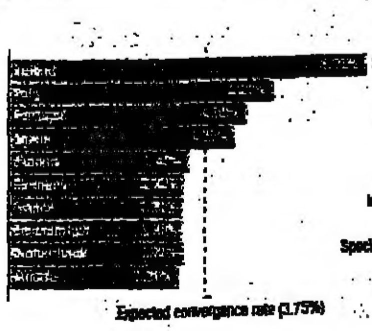
EURO INTEREST RATE CONVERGENCE



Euro prices, Page 25

Microsoft set for court after compromise talks collapse

Software giant likely to face charges of abusing market power to crush competition

By Louise Kehoe in San Francisco and Richard Wolffe in Washington

The US government is today expected to launch a landmark legal battle against Microsoft, the world's largest software company, after compromise talks collapsed at the weekend.

In the biggest antitrust case for 15 years, the US justice department and 20 state attorneys-general plan to charge the software company with abusing its market power in order to crush its competition.

The lawsuits will allege that Microsoft has illegally sought to extend its monopoly in operating software to dominate other markets. Windows, Microsoft's flagship product, is the operating software installed on more than 90 per cent of the world's personal computers.

The government and state cases have been drawn up separately but focus on similar issues – in particular, Microsoft's bitter competition over internet software with Netscape Communications, the pioneer of easy-to-use internet browsers.

As the talks ended in recriminations on both sides, Microsoft said it would press ahead today with the first deliveries of Windows 98, its latest version of the software, to personal computer makers.

The government could still delay the shipping of Windows 98 with any last-minute legal manoeuvres, but the company said it did not anticipate such action. Retail sales are planned to begin on June 25.

Windows 98 was at the centre of the weekend's failed talks between Microsoft, the federal government and state attorneys. In particular, government lawyers argued that the design of the new product will stifle competition in internet software by packaging and integrating Microsoft's browser with Windows.

Antitrust officials at the justice department attempted to negotiate more freedom for PC makers to change the appearance of the desktop display, which consumers see when they switch on.

Microsoft said it walked away from the settlement negotiations when faced with "unreasonable demands". Bill Gates, chairman and chief executive, said: "What the government is asking would significantly hamper us from competing through innovation and would put everything we have worked for and built in the past 23 years at risk."

Microsoft claimed federal and state regulators had "asserted that making the Windows operating system work well with the internet was somehow illegal".

The company said it balked at government demands that it effectively separate its internet browser program from Windows and install links to competitors' software in place of Microsoft programs.

It said it was being forced to include rival internet browsers with every copy of Windows, which was "like telling Coca-Cola it must add three cans of Pepsi to every six-pack".

Government sources denied they had demanded such conditions about rival software, and merely discussed the issue. They insisted the talks collapsed when Microsoft withdrew concessions it had earlier offered.

Today's expected lawsuit, which the justice department hopes will ensure competition in the fast-growing market of internet commerce, will be the biggest since the 1984 breakup of AT&T, the telecommunications giant.

Windows 98, Page 11
Antitrust battle, Page 2
Lex, Page 16

Bill Clinton and Tony Blair preparing to fly to the UK prime minister's country residence yesterday Picture: Reuters

Clinton still optimistic about heading off Pakistan tests

By Gerard Baker and David Buchan in Birmingham and Farhan Bokhari in Islamabad

President Bill Clinton said yesterday he still hoped Pakistan would not conduct a nuclear test, in spite of growing signs it was preparing to do so.

Speaking at the close of the Group of Eight summit in Birmingham, Mr Clinton said he understood the pressure the Pakistani government was under to respond to India's tests last week. But he held out the prospect of US support for Pakistan if it resisted the temptation to follow suit.

"I still have high hopes that the prime minister and Pakistani government will not go through with a nuclear test," he said. "The rest of us who would support that can work with them in a way that meets their security interests without the test."

Pakistan's foreign secretary, Shamshad Ahmad, arrived in Beijing last night for talks intended to show India that Pakistan was in close consultation with its oldest and most trusted ally, China, at a moment of deepening crisis.

Mr Ahmad said on Saturday that Pakistan would never renounce its nuclear option and would choose the appropriate moment to respond to India.

Mr Clinton told reporters he believed some European countries would eventually join the US, Japan and Canada in imposing sanctions on India. Yesterday's summit ended without any collective commitment by the G8 to take action, as France, Russia and Germany opposed such a move.

Strobe Talbott, deputy US secretary of state, who arrived in Birmingham after talks with members of the Pakistan government, said at a news conference yesterday that Islamabad had not presented the US with a wish list. Washington is nonetheless considering a range of rewards to keep Pakistan from carrying out tests.

The US administration plans to ask Congress to repeal a law under which Pakistan has been denied reimbursement for F-16 fighter planes it paid for in the 1980s but delivery of which has been blocked for more than 10 years.

It has warned Pakistan meanwhile that it will suffer aid and credit sanctions similar to those imposed on India last week if tests go ahead.

Canada and Japan expressed dissatisfaction that the G8 did not go further, while France, Germany and Britain said they did not believe sanctions on India would influence Pakistan's behaviour.

Tony Blair, the UK prime minister hosting the summit, said India could only "mitigate" what it had done by signing the comprehensive test ban treaty.

Birmingham summit, Page 5
Hypocrisy and the bomb, Page 14
Observer, Page 15
India 'confirmed' as N-power, Page 4

Pearson and Hicks Muse to buy Simon & Schuster

By William Lewis in New York

Pearson, the media company that owns the Financial Times, and a leading US leveraged buy out firm yesterday won the auction for Simon & Schuster, the US publisher being sold by its parent group Viacom.

According to people close to the negotiations, Pearson, together with Hicks, Muse, Tate & Furst won the auction for Simon & Schuster by agreeing to pay a total of $4.6bn. Under the terms of the link with Hicks Muse, Pearson will pay about $3.6bn and the buy-out fund about $1bn.

Pearson is to retain the educational publishing operations of Simon & Schuster, putting them together with its Addison-Wesley Longman publishing division, and sell on its reference and business and professional arms to Hicks Muse.

Both Pearson and Hicks Muse declined to comment yesterday afternoon in New York, although a formal announcement was expected later in the evening.

The deal is the most significant strategic move by Pearson since Marjorie Scardino became chief executive last year. Ms Scardino has stated in the past that she is keen to reinforce the company's position in educational publishing, and the acquisition of Simon & Schuster will mean that Pearson controls the world's leading educational publishing business. The proposed transaction will need regulatory clearance in the US.

Pearson and Hicks Muse saw off two other bids for the operations auctioned off by Morgan Stanley Dean Witter, the US investment bank, on behalf of Viacom. The other bidders were Kohlberg Kravis Robers, the buy-out fund led by Henry Kravis, and Knowledge Universe, a company controlled by Michael Milken, the former high-yield bond trader. Mr Milken is believed to have sought the backing of News Corporation, Rupert Murdoch's global media group.

Pearson was advised by Goldman Sachs because Lazard Freres, the investment bank it partly owns, had been advising another potential bidder. Greenhill & Co, the mergers and acquisitions advisory firm, advised Hicks Muse.

Analysts said that the deal would be earnings enhancing for Pearson in the first year by a significant margin. They said that although Pearson might have been able to buy all five divisions of Simon & Schuster on sale itself, it would have had to sell the non-educational operations within a reasonable time to restore an acceptable level of interest cover.

For Viacom, the amount it has received for Simon & Schuster is at the top end of the range of analysts' expectations. The second round of bidding closed last week and negotiations were completed on Sunday morning.

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WORLD NEWS

AMERICAS

JUSTICE DEPARTMENT LITIGATION WILL BE EXTREMELY COSTLY AND COULD DRAG ON FOR YEARS

Net closes around Microsoft

By Louise Kehoe in San Francisco

A protracted legal battle between Microsoft and US antitrust regulators now appears inevitable. Barring last-minute concessions on either side, law suits charging the software industry leader with anti-competitive activities are expected today.

The prospect of years of litigation is not a happy one for either party. Neither does it hold out much hope for Microsoft's struggling competitors such as Netscape Communications, which may have a prolonged wait to find out whether they will get any court-ordered relief from Microsoft's allegedly unfair tactics.

Microsoft acknowledged over the weekend litigation would be "expensive and distracting". The company's greatest fear is that like International Business Machines in the 1970s, it may become so entangled in legal battles that it loses its competitive edge. The company's every move may come under the scrutiny of the courts, reducing its ability to move quickly to launch new products and technologies.

For government regulators, the excitement surrounding the filing of landmark legislation could quickly fade as the legal process proceeds. The Justice Department and its collaborators in several state governments will be taking on one of the richest and most powerful companies in the world, with limited resources of their own.

The case is unlikely to be resolved until long after the administration ends and it is not certain that the vigorous approach to antitrust regulation instituted by Joel Klein, the head of the Justice Department antitrust division, will be continued by his successors.

Microsoft, therefore, can be expected to drag out the proceedings as long as possible, at least until it finds out whether its next adversary at the Justice Department is as determined as Mr Klein to proceed with the case.

Similarly, although there is broad political support for the Justice Department's action against Microsoft, there may be less enthusiasm for the quasi-regulatory solutions that a court victory might produce. If Microsoft is forced, for example, to confer with the government over which new functions it can add to Windows in the future, this would be tantamount to regulation of the software industry leader.

Microsoft may try to drag out the proceedings as long as possible

Regulation is anathema to Microsoft, but also to its industry rivals.

Even executives from Netscape Communications and Sun Microsystems – Microsoft's most outspoken critics – have frequently warned regulation would be the kiss of death for US competitiveness in the software market.

For Netscape and other Microsoft rivals, news of the collapse of talks between Microsoft and government officials over the weekend snatched away hopes of a swift settlement that might have offered them a way quickly to regain some of their lost market share.

Now these companies will hope the government will seek court orders prohibiting specific actions by Microsoft – perhaps in the areas of contracts with PC manufacturers that allegedly exclude competition – pending the outcome of the case.

For the vast majority of PC users, the litigation facing Microsoft is unlikely to have any immediate effect. Microsoft said on Saturday it was determined to move ahead with the launch of Windows 98, its next version of the widely used PC operating system, on June 25 as planned.

In the longer term, the antitrust case could mean slower progress in some of the most exciting areas of computer technology. Microsoft has already demonstrated prototypes of a future version of Windows that include speech recognition.

It is also making advances in technology that would enable a computer to adapt automatically to the work patterns of individual users, to translate documents automatically and to respond to gestures rather than keyboard commands or mouse clicks. Microsoft says its ability to add these or other technologies to future computer operating systems is threatened by the government's demands that it not extend Windows to include new functions.

Government officials argue their goal is to give consumers greater choice. This would mean much more than choosing between Microsoft's and Netscape's browser programs. Ultimately, users should be able to "personalise" their personal computers with software of their choosing from a wide range of suppliers.

The same, but different: Page 11

Argentina orders expulsion of 7 Iranians

By Ken Warn in Buenos Aires

Argentina's diplomatic relations with Iran are near breaking point amid growing suspicions of Iranian involvement in the 1994 bombing of a Buenos Aires Jewish cultural centre, in which 86 people died.

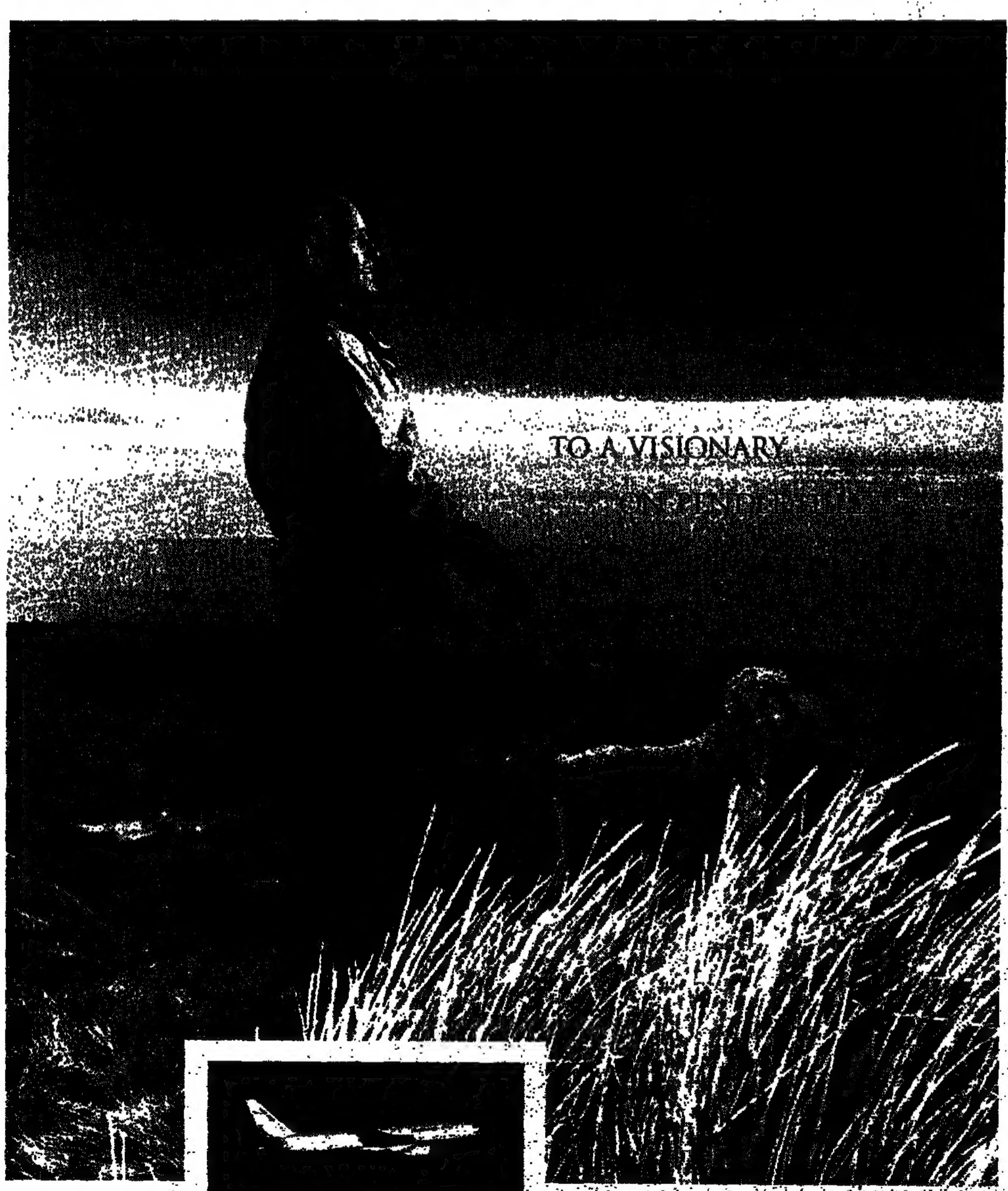
Guido Di Tella, Argentina's foreign minister, has ordered the expulsion of seven Iranians, including three diplomats, and said relations between the countries would in future be conducted "at minimal level".

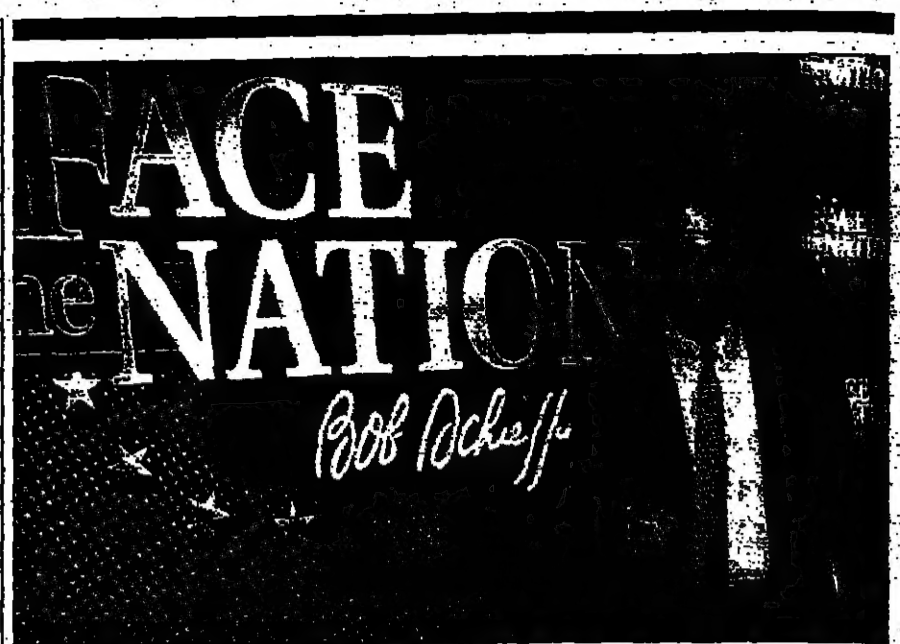
An Iranian citizen in Buenos Aires was arrested for questioning in connection with the case last week.

Last week Tehran, stung by Argentine criticisms of its "lack of co-operation" with the investigation, ordered the expulsion of Argentina's commercial attaché from Tehran and threatened trade sanctions against Buenos Aires.

Iran has always denied involvement in the blast at the cultural centre, known as the Amia, and in the 1992 bombing of Israel's embassy in Buenos Aires, in which 29 people died.

Argentina's mainly agricultural exports to Iran, which totalled almost $640m last year, are threatened by the dispute. Iran's exports to Argentina are almost negligible.





Don Nickles, Senate majority whip: outspoken opponent of the proposals

Tobacco industry battles to slay US 'monster' bill

Mark Suzman on why tobacco companies fear a $516bn-plus bill, without legal protections, may pass in the Senate

As the US Senate begins debate over the proposed multi-billion-dollar tobacco settlement later today, the tobacco industry is likely to feel more than a sneaking sympathy with Dr Frankenstein.

When tobacco companies first unveiled the $368.5bn deal last June, they basked in praise from the government and Wall Street for carving out an improbable agreement that would help public health, while resolving the endemic legal uncertainties that had corroded their share prices.

Now, with stocks once again languishing, the White House again critical and public health groups launching daily diatribes against it, the industry will be doing all it can to use the debate to try to kill the monster the deal has become.

The reason for the dramatic change in attitude is that while the measure Congress is considering bears many similarities to the June agreement, it contains none of the legal protections the industry was seeking and imposes much tougher financial penalties than originally envisaged.

Charging that such moves are not only unwarranted but would force them into bankruptcy, the companies are mounting a massive public relations and lobbying operation to thwart them.

But with big tobacco's once fearsome political clout all but evaporated following revelations it marketed to under-age smokers, it remains unclear if the industry has enough political support to head off growing sentiment in favour of the controversial bill.

The new bill requires a $1.10 increase in the price of cigarettes that backers say would raise the total cost of industry payouts to at least $516bn over a period of 25 years.

It remains unclear if the industry has enough political support to head off the bill

In addition, instead of giving the tobacco companies broad immunity from future class action lawsuits it also proposes merely an annual cap in legal payouts of $6.5bn as well as additional penalties of up to $3.5bn a year if the companies miss targets on cutting youth smoking.

Under pressure from the White House, both those limits are likely to be raised further when the bill reaches the floor as a concession to secure formal support from President Bill Clinton.

But despite warnings from the companies – and some private sector analysts – that the real costs of the measure would be closer to $850bn and lead to widespread bankruptcies, most senators have so far shown little sympathy for the industry's complaints.

Last week, the Senate finance committee – which was expected to take a more tobacco friendly stance than the Commerce committee which devised the bill – narrowly approved a change that would actually require the price of cigarettes to rise by $1.50 over three years, adding billions more to the total payout.

The new plan has aroused the opposition of some tobacco-state senators, but will now be offered as another floor amendment.

With all the momentum seemingly on the anti-tobacco side, even such outspoken opponents of the proposals as Don Nickles, the Senate majority whip, now complain that the chances of the bill passing are "too high".

But if he proves right and the measure does get through, the tobacco industry will have one more chance to slay its misbehaving monster: the proposals still need to be considered by the House of Representatives, which has so far been much less enthusiastic about the settlement.

Clinton agrees to back China poll funds probe

By Stephen Fidler in Washington

President Bill Clinton said yesterday he would support an investigation into allegations that Chinese donations to his 1996 election campaign had swayed important US foreign policy decisions.

Foreign policy was made in what the administration believed were the "interests of the American people", he said in Birmingham at the G8 Summit. "If someone tried to influence them, that's a different issue, and there ought to be an investigation into whether that happened and I would support that."

The New York Times said on Friday that Justice Department investigators were pursuing information suggesting that a Chinese state-owned aerospace company had managed to channel $300,000 of illegal campaign finance into the Democratic party campaign coffers in 1996.

Yesterday, it reported that in March 1996 Mr Clinton's administration overturned a decision made five months earlier that had in effect prevented US satellites being launched on Chinese rockets. The decision to take satellites off a "munitions list" of militarily sensitive exports was made by the Commerce Department – whose then head, the late Ron Brown, was a principal Democratic party fund-raising strategist – after a power struggle with the State Department.

There was strong lobbying from US companies to take this decision, and Justice is also investigating whether a $660,000 donation from Bernard Schwartz, chief executive officer of Loral Corporation, which had a satellite carried in a 1996 Chinese launch that failed, had influenced policy.

The suggestion a US "tilt" towards China was influenced by campaign finance considerations would be damaging enough for Mr Clinton, but it has come at a particularly sensitive time. Last week India detonated five underground nuclear tests, a move security experts fear could set off an arms race in the region. One reason cited by India for the tests has been fear of China, which it has seen as favoured by US policy.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.

GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.

SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

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Jakarta riots leave the economy paralysed

Anxious times lie ahead for Indonesia's crippled business sector and its foreign partners. John Ridding and Sander Thoenes report

Burned-out shops, paralysed financial markets, and an exodus of investors: Indonesia is staring into the economic abyss. "It doesn't really have an economy at the moment," said one diplomat in Jakarta. "Business is in a state of shock."

The shock waves are potent. Dislocation and decline resulting from last week's riots may fuel further civil unrest and increase pressure on President Suharto's regime. They have raised the risks for foreign banks exposed to Indonesia, sent shudders through regional markets and thrown into doubt the $43bn IMF rescue package.

Diplomats and bankers said the US and foreign governments wanted to keep the IMF package in place – to be used as a carrot to encourage political reform.

Indonesia's government, too, said the agreement continued. Ginandjar Kartasasmita, co-ordinating minister for economy, finance and industry, claimed last Friday's decision to reduce the fuel price rises that sparked the riots had been discussed with the Fund.

But the concessions on fuel prices, an important plank of the latest IMF agreement, will further erode confidence in Mr Suharto's willingness and ability to implement reforms. "Every time they adjust, their credibility declines," said Umar Juoro, an economist with an Islamic think tank.

He thought the IMF package had become something of a sideshow to Indonesia's political drama, a view supported by the withdrawal of the Jakarta IMF team.

A more pressing problem is that the country's economic crisis has escalated far beyond the difficulties the IMF sought to address. The pressures facing companies and financial markets have only been compounded by the recent chaos.

Standard & Poor's, the US credit rating agency, downgraded Indonesia's foreign currency rating in the wake of the rioting. The deepening political crisis, said S&P, was eroding its ability to service public sector debt.

Although sovereign offshore debts due this year are believed to be less than $10bn, the central bank also guaranteed private bank debt, including $8bn in loans, more than $7bn in short-term trade financing and some $2bn in money market lending by foreign banks.

With interest rates standing at about 50 per cent, Indonesia will face problems servicing its central bank bonds, said Theo Toemeon, a currency trader and former central bank staffer. He estimated the central bank had borrowed some Rp27,000bn (approximately $2.45bn), which would imply some Rp1,300bn in interest due each month. "The central bank will no longer be the lender of last resort – it will be the borrower of last resort."

Bank exposure to Indonesia

$m

HSBC	1,827
Standard Chartered	1,889
Citicorp	800
Chase Manhattan	2,380
Credit Lyonnais	1,411
Deutsche Bank	584
DBS	729
Bank of Tokyo Mitsubishi	3,883
Fuji Bank	1,771
Bank of America	884
Daiwa	780
Sumitomo Trust	690
OCBC	755
J.P. Morgan	813
BNP	1,010
Société Générale	795

*US dollar exposure is based on exchange rates as of April 29 1998

Source: Morgan Stanley Dean Witter

Although the central bank said clearing operations would be resumed today, the hiatus in the financial system threatens further corporate casualties. Should currency trade be resumed, warned one economist, there would be "a dive for the dollar". Further falls in the rupiah, which has lost 70 per cent of its value since the onset of the crisis last year, would fuel inflation and add to the 50 per cent fall in real wages.

Many are preoccupied with the damage to Indonesia's distribution sector. "That is my biggest concern," said one senior banker.

The ethnic Chinese community, which was targeted in the riots, has provided the backbone of Indonesia's retailing and distribution sectors. But many ethnic Chinese have now left for safer shores. Disruption of their trading businesses threatened supplies of food and healthcare. Exports will be crippled by lack of transport and trade finance.

Not all are so gloomy. Some bankers and economists saw potential for a swift return in confidence if the political crisis was resolved, while others made a distinction between the urban and rural economies. Large swathes of the rural economy have been unaffected by the upheaval. Many commodities and primary export industries are unscathed.

Paralysis rather than collapse was the verdict of some commentators. As one banker put it: "The economic crisis will itself add to pressures for political reforms which are now necessary to restore investor confidence." But with a complex and potentially violent political endgame in prospect, anxious times lie ahead for Indonesia's crippled business sector and its foreign partners.

As corporate cashflows shrink and foreign exchange risks rise, foreign banks are looking ever more nervously at their exposure to Indonesia. The next round of talks with creditor banks is due in Frankfurt on May 26. But that, like everything else in Indonesia's crippled economy, now seems on hold.

The downside is clear. "There is still a lot of debt not provisioned for," said Charles Blitzer, head of emerging markets research at Donaldson, Lufkin & Jenrette. Bank of Tokyo Mitsubishi, Chase Manhattan, and HSBC Group are among the most exposed.

Mr Blitzer sees a possible knock-on effect in bank lending to other emerging markets and a souring of sentiment elsewhere. This was demonstrated last week when Russian bond yields widened and the rouble came under pressure.

Closer to Indonesia, concerns are more acute. Thailand and Korea, the other regional IMF patients, have new political leaders to push through economic reform. But they still face the real economic pain of adjustment. Singapore and Malaysia are shuddering under the threat of mass emigration and ethnic tensions.

"Everyone is watching Indonesia," said a banker in Singapore. He described the country as a "ghost economy". And as with other ghost stories, most are scared by what they see.

Foreign companies put their operations on hold

By John Ridding and Sander Thoenes

Indonesia's riots have given a new meaning to the term business travel. Multinationals have evacuated staff, families and many local employees in response to the country's civil unrest.

The exodus underlines the fall in investor confidence. "You have widespread absentee management," said one banker, who left Jakarta for Singapore. "It will have a crippling effect."

While ethnic Chinese businesses bore the brunt of the rioting, some foreign companies were also directly affected. The Multi Bintang brewery, controlled by Heineken of the Netherlands, was plundered last week.

Wary of similar incidents, many multinationals have withdrawn staff and suspended operations. Ericsson, the Swedish telecoms company, Federal Express of the US and Taiwan's President Foods are among the latest companies to close their Indonesian offices.

Japanese companies have also taken precautions. The big Japanese carmakers have suspended production at several plants.

Many foreign financial institutions, including Deutsche Bank, Credit Suisse First Boston and the Bank of Tokyo Mitsubishi, have withdrawn staff or suspended operations. So have several big oil groups, such as Total of France and Mobil of the US.

SKF, the Swedish roller bearings manufacturer, warned it would lose up to SKr500,000 ($65,000) a day because of the closure of its Jakarta plant and sales office.

But it is not a picture of uniform gloom. Indonesia's main mining areas for copper, tin and nickel are far from Jakarta and have not been affected by the strife, company officials said.

'They were supposed to protect the people . . .'

By Sander Thoenes in Jakarta

Shocked by the images of soldiers standing idle while looters rampaged through their capital, Indonesians said they had lost faith in the one institution they looked upon to salvage their nation. "The military has lost all legitimacy with the people," said Umar Juoro, an economist with an opposition think tank. "They are supposed to protect the people but they didn't."

Disillusionment with the military, the 500,000 men and women who pride themselves on having chased out the Dutch colonial army in 1949 and have dominated politics ever since, could leave more room for civilian groups to oppose the current government. But as they are also weak and divided, the military's fall from grace may only aid President Suharto's efforts to buy time, analysts and activists said.

Some regiments of the Strategic Reserves, the elite troops, stayed in their barracks in southern Jakarta as a nearby shopping centre was set alight. Marines crouched on the pavement smoking cigarettes as youths looted shops on Gadja Madah street. "Toss stones all you want, just don't toss them at me," one yelled at the passing mob.

"Where was the army?" asked Hakim Hatta, a student leader. "They only protect the rich, those who pay for protection."

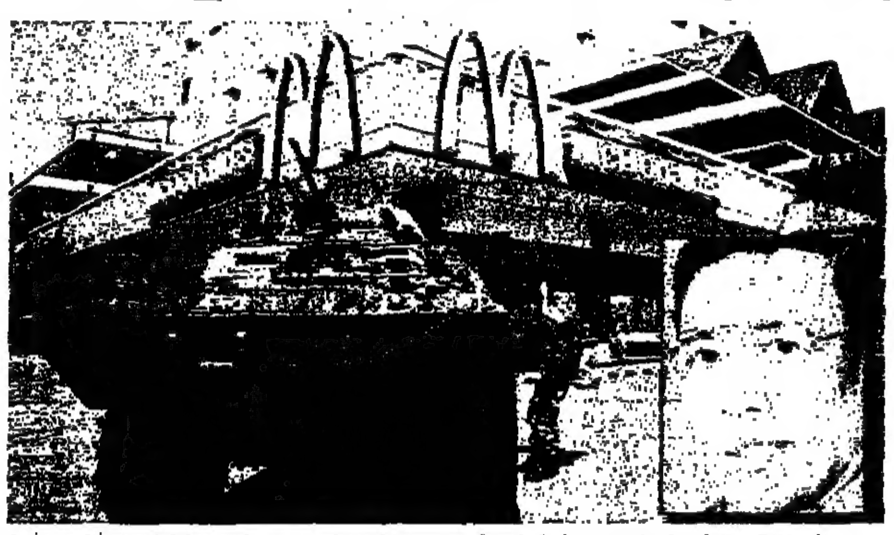
The military's failure to keep order raises concern for more widespread unrest when students commemorate the founding of Indonesia's first nationalist movement on Wednesday with big nationwide protests.

General Wiranto, chief commander of the armed forces, last week said his army, relatively small in comparison with a population of 200m, "is not ready to face crisis points with all crowds all over the country".

The other shock, especially to Indonesia's elite and foreign governments which had looked upon him as an acceptable alternative to Mr Suharto, was the failure of Mr Wiranto himself to take any political initiative in the past few days. "Were was W?" said a friend of his in anguish.

In just a few public statements, Mr Wiranto alienated students by blaming them for sparking the violence. He also failed to condemn the shooting of six students and expose its perpetrators, who are believed to be either his rivals in the top brass or Mr Suharto himself.

"Perhaps he realised he was not in control of his army, that he stood alone," said his friend, a prominent business executive. "Everybody is so disappointed in Wiranto. And now there is nobody left to take Suharto's place."



Army tanks patrol Jakarta streets as shops began opening their doors yesterday. Inset: General Wiranto, chief commander of the armed forces: failed to take any political initiative AP

Many Indonesians think General Prabowo Subianto, Mr Suharto's son-in-law and commander of the Strategic Reserves, was out to make Mr Wiranto look ineffective and had a hand in the shooting of the students and the ensuing riots. They have no proof, but they might see their plot theory confirmed if Mr Suharto were to revive KopKamTib, a powerful agency that used to operate outside the regular armed forces, and appoint Mr Prabowo to it, as many predict.

Others think Mr Suharto weakened the army's top brass to pre-empt any threat to his authority. "That is Suharto policy," Mr Juoro said. "He does not want anyone strong in the chain of command."

Mr Hatta, the student leader, said the loss of faith in the military was long overdue and left more room for grassroots opposition groups such as his. But he acknowledged the opposition was too divided to pose much of a threat to Mr Suharto. "The military is waiting for the people to say: 'We need the military'," he said, convinced that senior generals orchestrated the riots to undermine public support for the student protests and crackdown. "If this happens, the student movement, the whole reform movement is in danger."

"There is still hope for putting Suharto in a corner," Mr Juoro said. "To persuade him to transfer power peacefully. If he doesn't we risk the Africanisation of the country, where each group does what's best for itself."

Tests 'confirm India as N-power'

By Amy Louise Kazmin in New Delhi

India's top nuclear scientists said yesterday that last week's nuclear tests confirmed the country's nuclear weapons capability, and would be followed by development of a more advanced intermediate range ballistic missile.

A.P.J. Abdul Kalam, chief of India's Defence Research and Development Organisation, said his agency had worked with the country's Department of Atomic Energy in "a national mission to confer on the country a capability to vacate nuclear threats".

In what was dubbed the *Shakti* (Power) '98 campaign, the five tests provided Indian scientists with "critical data" to "validate" the design of nuclear weapons for different purposes, and various delivery systems, R. Chidambaram, chairman of the Atomic Energy Commission, said.

Since India conducted the nuclear tests last week, some foreign scientists have questioned its claim that it exploded a thermonuclear device, normally a hydrogen bomb. Yesterday Mr Kalam and Mr Chidambaram released technical data and pictures of the explosions for the first time.

Brahma Chellaney, a strategic affairs analyst at the New Delhi-based Centre for Policy Research, an independent think tank, said the tests clearly indicated India was past the "development phase" of nuclear weapons design, and that it "has a tiny nuclear arsenal already there".

"They obviously had copies of what they have tested – these are not the only ones," Mr Chellaney said. "India is now a nuclear weapons state."

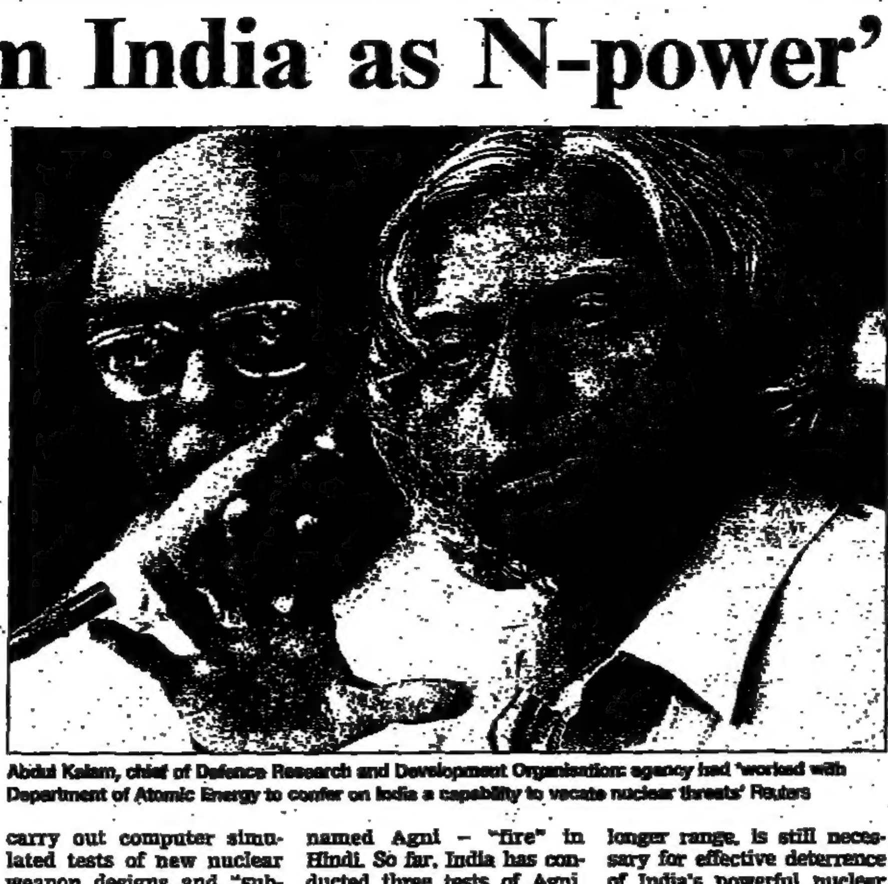
The scientists said India's Hindu nationalist-led government gave the go-ahead for the nuclear tests last month, immediately after its rival and neighbour Pakistan tested its Ghauri missile, which has a range of 1,500 km – reaching well into Indian territory. In the initial round of tests, the scientists said, India simultaneously exploded a fission device with a yield of 12 kilotonnes, a thermonuclear device with an explosive yield of 43 kilo-tonnes, and a sub-kilotonne device. Two days later, India tested two smaller devices, prototypes for nuclear artillery and other "battle-field nukes".

Mr Chidambaram said the tests had "significantly enhanced" India's ability to carry out computer simulated tests of new nuclear weapon designs and "sub-critical experiments in the future, if considered necessary".

The Bharatiya Janata party-led government has also approved resumption of efforts to improve on its intermediate range missile named Agni – "fire" in Hindi. So far, India has conducted three tests of Agni, an indigenous missile which has a range of 2,500 km. "Agni has been developed," Mr Kalam said. "If needed, it can be made in numbers."

However, most Indian defence analysts believe a more reliable missile, with a longer range, is still necessary for effective deterrence of India's powerful nuclear neighbour, China.

Mr Kalam said the government had given approval to proceed with the next version of the missile.



Abdul Kalam, chief of Defence Research and Development Organisation: agency had 'worked with Department of Atomic Energy to confer on India a capability to vacate nuclear threats' Reuters

Hypocrisy and the bomb, Page 14; Observer, Page 15,

Spectre of dialogue on Tibet irks China

By James Kynge in Beijing

China is concerned that heightened tensions with India could ultimately lead to increased pressure on it to start an international dialogue on the question of its rule in Tibet, officials and foreign diplomats said.

Senior foreign diplomats in Beijing said that China's key strategy was to resist any notion that a dialogue on Tibet and other sources of tension between Beijing and New Delhi might be one way to defuse the new threat to regional security posed by India's recent nuclear tests. India regards Tibet as an autonomous region in China and does not officially recognise the Dalai Lama's government in exile, despite providing sanctuary for it.

The rationale for seeking to reduce tensions through a Sino-Indian dialogue was made clear after George Fernandes, the Indian defence minister, identified China as his country's greatest security threat shortly before New Delhi exploded five nuclear devices last week.

"China wants to keep the issue of India's tests in a broad international framework but confine it in terms of content to the problem of [nuclear] proliferation," said one diplomat. "It does not want to get sucked into negotiations on Tibet or other boundaries in the Himalayan region."

Ye Zhengjia, senior researcher on Asian issues in the China Institute of International Studies at the foreign ministry, said tension between India and Pakistan, one of China's staunchest allies, was not a matter for Beijing.

"As for the problems between India and Pakistan, they have to sort out their problems on their own. There is little here that China can help with," Mr Ye said.

China's official stance toward India's tests has been to condemn them but not to take actions, such as endorsing sanctions, which could antagonise New Delhi. It has also called for international pressure to stop New Delhi turning its nuclear capacity into actual weapons.

Diplomats said Beijing, which is Asia's only declared nuclear power, realised that if India was to start developing weapons, international pressure on the two countries to seek resolutions to their disputes could intensify.

A foreign ministry statement from New Delhi at the weekend said India was open to a dialogue on nuclear disarmament and relations with China. But Beijing has shown little inclination to discuss resolving bilateral disputes and has turned down an informal Russian overture to mediate.

Beijing last month also brushed aside US suggestions for resumption of talks with the Dalai Lama, the Tibetan spiritual leader who lives in exile in India. A foreign ministry spokesman said the Dalai Lama, while professing a desire for an "autonomous" Tibet, was actually bent on seeking independence for the Himalayan region, which has been under Chinese rule since 1950.

Commentators said the issue of Tibet was especially sensitive for a Beijing government which has set territorial goals, such as reunification with Taiwan, as paramount. There is also a sense that the presence of the Dalai Lama, now 62, will be transient and that his reincarnation – who by tradition is a small boy – will lack his international stature.

● China condemned at the weekend a resolution by the European parliament to call for a United Nations commission of inquiry into Tibet and appoint a special UN rapporteur for the Himalayan region. Zhu Bangzao, foreign ministry spokesman, said Tibet was an internal affair of China and foreign countries had no business interfering.

Estrada starts to assemble his likely cabinet

By Justin Marozzi in Manila

A week after national elections in the Philippines, Joseph Estrada, the populist vice-president poised to succeed Fidel Ramos as president next month, has started assembling his likely cabinet.

Mr Estrada is well ahead according to the latest returns, though a final declaration is still long off. But investors and political commentators are already scrutinising Mr Estrada as he starts to assemble his ministerial team. Mr Estrada is expected to be a much more hands-off leader than his predecessor but the market is hoping his administration will simply carry on where Mr Ramos left off.

"Whether Mr Estrada can continue the liberalisation and free-market orientation and at the same time deliver more benefits to the masses is a very interesting question," said Ernest Leung, president of Philippine Depositors' Insurance Corporation.

Business as usual will be the theme if Mr Estrada is inaugurated as president on June 30. That impression is suggested by Gabriel Singson's decision to stay on as central bank governor at least through the transition period, and the probable continuation of the respected Domingo Siazon as foreign secretary.

The new finance secretary is expected to be Edgardo Espiritu, head of Westmont Bank, a medium-sized local bank. He is a former president of state-owned Philippine National Bank (PNB) and led its partial privatisation in the late 1980s.

Mr Espiritu said an Estrada administration would continue with the Ramos reform process.

"We think the issue of economic reform is already part of the law of the land and we will not change this because it is the only way to move forward." He said further privatisations would follow. National Power Corporation, the largest, heads the list, although its privatisation has long been delayed in congress. Napocor absorbs over 40bn pesos ($1bn) in subsidies annually.

Disposals of the government's stake in blue chip groups such as Manila Electric Company (43 per cent), PNB (45 per cent) and Philippine Airlines (20 per cent) are other priorities.

The banking sector, opened to foreign investors by the Ramos administration, is in need of further strengthening. Capital adequacy ratios for the big banks meet international standards but consolidation is expected.

Korean general strike set for May 27

By John Burton in Seoul

The dissident Korean Confederation of Trade Unions, which represents workers in main export industries, is to stage a general strike on May 27 to protest against growing unemployment.

The warning was issued during a weekend rally in Seoul that passed peacefully as rains cut the expected number of demonstrators. There had been fears of renewed labour violence after 20,000 workers and students clashed with tear gas-firing riot police on May Day.

The KCTU said it would call the strike unless the government agreed to five demands, including an end to mass redundancies, job security guarantees, improved social benefits, dismantling of industrial conglomerates and renegotiation on bail-out terms with the International Monetary Fund. Redundancies aimed at restructuring Korea's debt-heavy industries were a main condition of the IMF's $58bn rescue package in December.

A strike by the KCTU, the smaller of the nation's two labour groups, would pose a political problem for the government ahead of local elections on June 4, the first test at the polls for the new administration of Kim Dae-jung since taking office in late February.

However, the KCTU appears to lack public support for industrial action, with only a third of Koreans saying they would back strikes to protest at unemployment, according to a recent opinion survey.

The KCTU earlier agreed to accept a law to end life-time employment guarantees in return for better jobless benefits and management reforms among the family-owned conglomerates, or chaebol. But the union group claims the government has failed to keep its promises as unemployment has doubled to 1.5m, or 6.5 per cent of the workforce, since December mainly because of bankruptcies among small businesses.

The jobless number is expected to reach at least 2m this summer as industrial groups begin to cut their workforce in response to weak domestic demand. The Samsung Economic Research Institute recently warned unemployment above 2m would probably provoke social unrest.

The larger and more conservative Federation of Korean Trade Unions has also called for limits on job cuts and instead proposed wage freezes, reduced working hours and job-sharing.

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Indonesia exposes political dimension to Asian crisis

By Gerard Baker in Birmingham

All along, events in Asia had been expected to dominate this year's G8 summit of the world's leading industrial nations and Russia.

It was the first time global leaders had met since last year's financial crisis in the region, and they were ready to react with sage warnings about the need for reform to the "international financial architecture" – the complex structure of institutions and policies for supervising the world's financial markets.

Sure enough, the lessons of the crisis took up the longest part of the discussions, and the eight leaders duly published their calls for greater transparency, better international supervision and closer attention to the functioning of global capital markets.

But their formal agenda was, of course, overwhelmed by two more immediate Asian crises – the India-Pakistan nuclear weapons race and the turmoil in Indonesia.

While the failure to agree on anything other than words with which to reprimand India was seen by Americans as disappointing, much more significant was the leaders' observations on Indonesia – an inconsequential call for an end to violence and more political reform.

In fact, the Indonesian crisis and the G8's response to it crystallise the uncertainty about what may happen next in Asia and about how to deal with it. The most obvious problem evident at the G8 meeting was the scale of the threat an Indonesian meltdown poses to the world.

Perhaps the most striking picture of the summit was that of President Bill Clinton and Ryutaro Hashimoto, the Japanese prime minister, walking into the leaders' session at the redbrick mansion of Weston Park, arms draped around each other's shoulders.

It was striking because, until a week ago, Mr Clinton had been expected to come to Birmingham with a stern message for Japan. In increasingly aggressive terms in the last few weeks, the US has said Japan holds the key to resolving the Asian crisis. By stimulating its economy and sorting out the mess in its banking system, Tokyo could help remove much of the uncertainty haunting financial markets.

But from officials and the participants themselves, the impression given this weekend was of extraordinarily amicable discussions between the two men. Though US officials pointed out that Japan promised at the weekend's meetings to take "decisive" action on its financial problems, Mr Clinton was eager to emphasise his approval of what Mr Hashimoto is doing.

The urgency of the situation in Indonesia was cited by officials as a critical factor in the toning down of the two countries' differences.

Japan has a much closer relationship with Indonesia than any of the other leading economies.

And US and Japanese officials are well aware that Indonesia represents potentially a serious downward twist in the Asian spiral, with Japanese and European banks heavily exposed there.

"That concern contributed an important element in the backdrop to all this as we discussed Asian financial turbulence," said Sadaaki Numaata, Mr Hashimoto's official spokesman. "The last thing the world needs to see is the US and Japan squabbling while countries in Asia go up in flames," was how another observer put it.

But in the longer term the bigger threat posed by Indonesia to the world's leaders is that it significantly undermines their fundamental approach to the crisis.

The G8, prodded by the US, has emphasised the central role of the IMF. But as the world leaders were again endorsing the Fund's role in the region, IMF officials were, literally, packing up shop in Jakarta. It seems certain that, rightly or wrongly, the IMF will have to shoulder some of the blame for the collapse in Indonesia.

But the bigger problem Indonesia presents for the G8 is that it points up the difficulty, in the absence of democracy, of the IMF and its international financial role.

Since Indonesia first fell into financial problems last summer, the US has barely mentioned political reform in Indonesia, for fear of losing further leverage with the government of President Suharto. And US officials know that in the rest of Asia, the economic success of the last 30 years has, in many countries, been accompanied by an absence of serious political reform. To call for open government as a an integral part of economic reform would alienate many countries, not least China, for whom there was warm praise yesterday for its role in the Asian financial crisis.

And yesterday's communiqué contained no reference to the need for democratic structures in emerging markets, only a call for "good governance".

Boris Yeltsin greets the US president in Birmingham yesterday. He told Mr Clinton he was committed to stopping missile transfers Reuters

Clinton urges Yeltsin to halt Iran missile transfer

By David Buchan, Diplomatic Editor

President Bill Clinton yesterday pressed his Russian counterpart, Boris Yeltsin, to fulfil promises to curb the transfer of missile technology to Iran.

US officials suggested that such curbs were part of the key to ending the dispute over US threats to apply sanctions to companies of other countries that do business with Tehran.

In a 45-minute meeting with the Russian leader after the G8 summit in Birmingham, Great Britain, Mr Clinton raised the issue of Russia's "illicit and dangerous" missile technology transfers to Iran, a senior US official said.

Over the past year, Mr Yeltsin had promised the US that it would end these transfers. But Strobe Talbott, deputy secretary of state, said there were "still problems in implementation and enforcement of Russian law and executive orders". Mr Yeltsin yesterday recalled his personal commitment and that of his new government, Mr Talbott said.

Under its Iran-Libya Sanctions Act (ILSA), the US is threatening to impose sanctions on Gazprom of Russia, along with Total of France and Petronas of Malaysia, for investing in a new gas field in Iran, which Washington believes may be developing weapons of mass destruction as well as sponsoring terrorism and disrupting Middle East peace efforts.

In the margins of the G8 summit, US and European Union officials continued their negotiations to settle this issue, which will be discussed at today's US-EU summit in London.

The G8, which includes the US and four EU countries, agreed to "ensure the effective implementation of export controls, "in line with commitments to prevent the proliferation of weapons of mass destruction.

Jim Steinberg, the deputy US national security adviser, underlined the importance of this G8 commitment in the context of Iran, where "it is very important to have Americans and Europeans agree".

It is clear that Washington is making stricter export controls by western Europe and Russia a necessary, though not perhaps a sufficient, condition of dropping the threat of sanctions action under ILSA.

On the issue of a planned visit by President Clinton to Moscow later this year, Mr Talbott said the prospects for this would be improved if the Russian Duma ratified the Start 2 nuclear weapons reductions treaty. Mr Clinton wanted a summit to focus on further cuts in nuclear arms in a possible Start 3 treaty.

Solution eludes sanctions dispute

By Gerard Baker

US and European officials were locked in talks last night in an effort to agree a transatlantic trade deal that could lift a US threat of sanctions against European companies that do business in Cuba, Iran and Libya.

The two sides were still hoping to reach a deal by the start of today's twice yearly EU/US summit in London between Tony Blair, British prime minister, Jacques Santer, president of the European Commission and Bill Clinton, US president.

"We are working very hard in advance of the summit... on some of those problems," said Mike McCurry, the White House press secretary.

But Mr McCurry declined to share the optimism of Mr Santer, who said on Saturday he was hopeful a deal could be achieved.

Without an agreement, the US must decide soon whether to impose sanctions on two companies, Total of France and Gazprom of Russia, over their investment in Iran's oil and gas sector. The US Iran-Libya Sanctions Act was passed by Congress in an effort to starve terrorist-sponsoring states of international trade and investment. But the Clinton administration has so far waived sanctions pending negotiations with the European Commission.

The EU wants the US to drop the threat of sanctions in exchange for a European agreement not to press a legal case against Washington at the World Trade Organisation over another piece of contentious US legislation, the Helms-Burton Act, which attempts to restrict the activities of foreign companies in Cuba.

Congress is putting pressure on the White House not to back down. US officials are hoping European governments will put more diplomatic pressure on Iran and Libya as part of any deal.

Poor win a little relief on debt

By Gerard Baker

Leaders of the Group of Eight industrialised countries yesterday announced an agreement in principle to extend debt relief for the world's poorest countries, but stopped short of making an offer of far-reaching debt forgiveness.

As 70,000 debt relief campaigners formed a human chain around the G8 summit venue at Birmingham, Tony Blair, the UK prime minister, acknowledged he had failed to persuade his G8 colleagues to adopt a more generous approach.

His "advanced position" was reined in, principally by the now familiar US opposition. Instead of promising to relax rules under which countries qualify for extra relief from their official debts under the IMF-World Bank Heavily Indebted Poorer Countries (HIPC) initiative, the eight leaders offered merely "to support the speedy and determined extension of debt relief to more countries".

Six countries have already been declared eligible for HIPC relief, and two more will follow soon. But there was no promise to widen the scope to other countries or to accelerate the special lending programme.

"We encourage all eligible countries to take the policy measures needed to embark on the process as soon as possible so that all can be in the process by 2000," the leaders' statement said.

"This is a huge disappointment. It seems to be shifting the blame to the poorest countries through an emphasis on good behaviour and the need to meet tough HIPC requirements," said Angel Travis of the Jubilee 2000 Coalition, which organised the Birmingham protests.

Several G8 leaders argued that the principle that governments should establish firm track records in sound fiscal and monetary policy was critical. Like the US, Germany has been unenthusiastic about extensions of debt relief. German officials say they had written off more official debt to developing countries than all but France.

The eight did agree to step up co-operation on malaria and other diseases.

Siberian election drama mounts

By Chrystia Freeland in Moscow

In a pointed display of *sang froid*, Alexander Lebed, the reserve general who hopes today to become governor of Krasnoyarsk region, went to the theatre yesterday afternoon. But the more compelling drama was in nearby polling stations, where Siberian voters flocked to make one of Russia's most important political choices this year.

The electors of Krasnoyarsk, a vast province in Siberia, turned out in a strong ballot estimated at at least 60 per cent, to select a new governor.

A former paratrooper who briefly served as Boris Yeltsin's national security chief in 1996, Mr Lebed has travelled to Siberia in a make-or-break campaign to re-launch his political career.

If he wins, Mr Lebed, who came third in the 1996 presidential ballot and was the pollsters' favourite in the weekend vote, could be well placed to make a second bid for the Kremlin in two years. But if he loses he could be consigned to political oblivion.

With its power to upset the fragile balance between Moscow's warring political and financial clans, the Krasnoyarsk race has attracted a star-studded cast of politicians and celebrities.

Backed by the Kremlin, incumbent governor Valery Zubov won a personal endorsement from Yuri Luzhkov, the popular mayor of Moscow.

Mr Lebed had star-power too: last month Alain Delon, the French film star, paid a flying visit to Siberia.

Mr Lebed's appeal for voters disillusioned by Russia's post-communist political establishment won him 45 per cent of the vote – 10 points ahead of Mr Zubov – in the first round of balloting in April. Yesterday's run-off will determine a winner, with unofficial results expected today.

GERMAN LEADERSHIP BATTLE DELEGATES PRAY CHANCELLOR'S SPEECH WILL BREATHE NEW LIFE INTO PARTY'S FLAGGING CAMPAIGN

CDU awaits Kohl's conjuring trick

By Peter Norman in Bonn

The eyes of 1,001 delegates and 700 special guests will be on Helmut Kohl, Germany's chancellor, this morning when he rises to give his keynote address to the annual congress of his Christian Democratic Union.

The 68-year-old chancellor's speech has been billed as the most important in his long campaign for an unprecedented fifth term. If Mr Kohl is to have a chance of overcoming the large opinion poll lead of Gerhard Schröder, the opposition Social Democratic candidate, he must put new life into the CDU's flagging campaign for the general election on September 27 and recapture the initiative after months of setbacks.

A weekend opinion poll by the Mannheim-based political research group Forschungsgruppe Wahlen (FGW) for the ZDF television channel put support for the CDU and its Bavarian sister party, the Christian Social Union, at a new low of 29 per cent. Only 26 per cent of 1,290 voters polled last week wanted Mr Kohl to stay, against 65 per cent favouring Mr Schröder as chancellor.

Mr Kohl has been written off many times only to bounce back. His aides hope he can work the same magic this year. But the starting position is much worse.

According to FGW, the three parties of Mr Kohl's coalition are supported by 34 per cent of voters compared with 39 per cent in May 1994. Support for a putative coalition of SPD and the environmental Green party is running at 57 per cent against 50 per cent four years ago.

The slump in support comes after three rotten months for Mr Kohl. He miscalculated badly in expecting Oskar Lafontaine, the SPD's left-leaning chairman, to be selected as opposition candidate, rather the centrist and popular Mr Schröder.

The CDU was weakened by a prolonged and messy squabble with the CSU over energy policy that dominated Easter headlines. The launch of the euro, a centrepiece of Mr Kohl's policy, on May 2 was marred by haggling over the presidency of the European Central Bank.

But the chancellor's fortunes have since improved. The praise heaped on Mr Kohl by President Bill Clinton during last week's visit to Berlin was a welcome campaign boost. The decision of the local SPD to form a minority government in the eastern German state of Saxony-Anhalt that will depend on the support of former communists is a threat to Mr Schröder's campaign to capture "the new centre" of German politics. After a long delay, the economic recovery is reducing Germany's army of 4.42m registered unemployed.

The FGW poll, conducted between Monday and Thursday last week, probably came too soon to capture any benefits for the CDU from these developments. The group's finding that more Germans (34 per cent in May against 19 per cent in February) believe the economy is improving has so far had no impact on Mr Kohl's ratings.

Meanwhile, the proportion of voters believing the governing coalition of CDU/CSU and the small Free Democrat party can win in September fell to 15 per cent from 21 per cent in April. The number expecting either an SPD or SPD-Green victory grew to 71 per cent from 66 per cent.

Mr Kohl is famously dismissive of opinion polls. But FGW's finding that 56 per cent of CDU/CSU supporters believe Mr Schröder will win the election is a measure of what the chancellor must achieve in the next 19 weeks.

Everyone's a winner in deal to restructure Crédit Lyonnais

The pact has enabled both Van Miert and Strauss-Kahn privately to claim victories over each other. Andrew Jack explains

Strauss-Kahn: approved final details which should result in a positive Brussels vote — Reuters

The lion that symbolises Crédit Lyonnais, the French state-owned bank, may have had its claws severely trimmed, but from the middle of this week it seems poised finally to be let off its leash.

Five years after the French government began taking serious remedial action to cope with rising losses at the bank, officials appear to have reached agreement with the European Commission over a restructuring plan satisfactory to both sides.

Late last week, Karel Van Miert, the competition commissioner in Brussels, and Dominique Strauss-Kahn, the economics, finance and industry minister in Paris, approved final details that should lead to a positive vote at a formal commission meeting on Wednesday.

That will lead to approval of the biggest state aid case ever considered by Brussels, and the implementation of a series of measures that officials argue may ultimately cost the French taxpayer more than FFr145bn ($24bn).

In exchange, the bank will sell more of its assets, and be privatised by October next year.

In public, the authorities in Brussels and Paris are remaining diplomatically quiet about the deal. In private, both are expressing satisfaction and claiming significant victories over each other.

> **The result is that the bank will emerge as a leaner business**

In reality, it is far from clear whether the planned solution is the best possible, in terms of minimising competitive distortions, keeping taxpayer costs down, maximising the bank's future sale value, or adding new conditions which counter-balance the considerable extra aid that is now envisaged.

But it has allowed both Mr Van Miert and Mr Strauss-Kahn to save face and claim credit.

Under the terms of the new plan, Crédit Lyonnais will be obliged to reduce its assets – from 1995 levels – by FFr680bn, to penalise it for state help it has received. That is sharply higher than the FFr310bn imposed in the previous plan three years ago.

However, the higher figure includes some assets – notably FFr25bn in South America – which were already earmarked for disposal in the 1995 plan, and cuts in the bank's French operations already under way as part of a cost-saving exercise which mirrors the restructuring of most of its domestic competitors.

While only a few weeks ago Brussels was still demanding the sale of all of the bank's European activities outside France, the plan allows it to preserve essential activities in London, Luxembourg, Switzerland and Frankfurt. It must sell FFr64bn in assets in Asia or North America, but these are likely to be relatively symbolic and non-strategic.

Significant remaining assets sales in the coming months – notably of BfG, its German subsidiary – were already necessary to meet its 1995 commitments, which obliged it to reduce by half its commercial presence in Europe.

The result is that Crédit Lyonnais will emerge a leaner business, but still with a strong position as a universal bank in France with a significant international presence in the financial markets and a global service for corporate clients.

The new plan stipulates that by October next year, the French government will reduce its participation – currently some 82 per cent directly and indirectly – to less than 10 per cent. But the 1995 plan already demanded the privatisation by the end of next year.

And Brussels, which cannot technically demand privatisation, has been forced to let Paris determine the way in which the sell-off will take place.

The result is that it will probably take the form long defended by Crédit Lyonnais' own executives: a sale in the coming months to several shareholders, including a partial market flotation.

That would allow them to construct a group of core, "friendly" investors. Talks have been taking place over a number of months, and Allianz, the German insurer which has commercial links with the bank, has said it would be willing to acquire up to 10 per cent.

Others, including Nippon Life of Japan, are less enthusiastic than a few months ago because of the crisis in the Asian markets. But, at a time of considerable bank consolidation across Europe and the US, there is likely to be little problem in finding new shareholders if the price is anywhere near right.

EU plan to ensure free flow of goods

By Neil Buckley in Brussels

European Union countries could be obliged to take action to ensure goods can still move freely during industrial blockades of frontiers, under plans to be discussed by ministers today.

The move is a reaction to a series of recent disputes – particularly by French farmers and truck drivers – that have blocked ports and borders and disrupted millions of dollars of trade.

Under compromise plans drawn up by the UK, holder of the EU's rotating presidency, for a "rapid response mechanism" in such cases, EU states would agree to a regulation emphasising the duties of all member states to ensure the single market can function properly.

Countries would also sign up to a political agreement that they would act swiftly to combat any disruption of the flow of goods during disputes.

Although it has issued critical statements and warnings, the European Commission has proved powerless to deal with two blockades by striking French truck drivers.

The compromise plan to be discussed today falls short of original Commission proposals which would have given it new powers to take an emergency decision within days forcing EU governments to take action.

Ministers may also take a step forward today on dealing with long-delayed plans for a European Company Statute that would enable multinational companies to set up a single corporate entity within the EU.

They will attempt to agree on the draft regulation of the statute, although the crucial provisions on consultation of workers in the European Company Statute – disagreements over which have held up adoption of the directive since the early 1970s – would still have to be agreed by EU social affairs ministers.

NEWS DIGEST

FRENCH POLITICS

Liberal Democracy votes to leave UDF grouping

The centre-right Union for French Democracy, crippled since regional elections last March, was dealt a new blow at the weekend when one of its two main groupings decided to leave. Members of the Liberal Democracy group, holding their national convention, voted 84 per cent in favour of the proposal.

Participants and observers at the convention suggested that the move would quicken the death of the UDF, one of two elements that have long made up the French right, along with the Gaullist Rally for the Republic.

The UDF and the RPR, the party of President Jacques Chirac, agreed last Thursday to form an alliance expected to start functioning this autumn.

The president of Liberal Democracy, Alain Madelin, told the convention that the fate of his organisation was "not to melt into a big centrist party".

Some on the right suspect the Liberal Democrats of seeking a rapprochement with the extremist National Front. Mr Madelin denied this. **AP, Paris**

SOUTH AFRICAN POLLS

Nats lose string of safe seats

The National party, which imposed South Africa's apartheid regime for four decades before handing power to the black majority, could lose its status as the official opposition at the next general election in 1999 following a string of severa local poll defeats and defections to other parties.

Seven NP councillors switched to the opposition United Democratic Movement at the weekend, joining dozens of other party members, including former cabinet ministers, who have abandoned the "Nats" in the past year.

The latest defections followed defeats in three local elections last week in former NP strongholds. In the predominantly white district of Rosettenville south of Johannesburg – which one NP member of parliament had described as the party's safest seat – the liberal Democratic Party won nearly 90 per cent of the vote.

The DP also won in Brakpan, east of Johannesburg, and in the "coloured" (mixed-race) area of Bergvliet in the Western Cape; in Bergvliet the NP was knocked into third place by the newly-formed UDM. **Victor Mallet, Johannesburg**

PERU GAS EXPLORATION

Investment decision delayed

Peru has granted Shell and Mobil a further 60 days to decide whether to go ahead with the full $3bn development of the Camisea natural gas field in the south-eastern jungle. Shell requested a six-month extension, claiming it still did not have sufficient technical data to evaluate the project.

Although the extension is shorter than requested, Shell said it remained confident that the Camisea project would proceed and that it would make a final investment decision by mid-July. Shell said a delay was needed because bad weather had held up drilling and analysis.

Aside from the technical studies, Shell must now settle unresolved regulatory matters including whether it will be allowed to take part in gas distribution to smaller industrial clients.

It will also have to clinch a big enough potential market for natural gas to justify its ambitious project to run a dual pipeline across the Andes to the coast. **Jane Holligan, Lima**

ISRAELI GDP

Growth remains sluggish

Israel's sluggish economy showed no sign of recovery during the first quarter of 1998, as gross domestic product grew at a preliminary annual rate of 1.2 per cent, the Central Bureau of Statistics (CBS) said yesterday. This was down from 2.2 per cent in the same quarter last year and was unchanged from the fourth quarter of 1997. Despite the data, it is unclear whether the Bank of Israel will further reduce its key lending rate – currently at 11.9 per cent – later this month. M1 rose a sharp 4.7 per cent in April while the consumer price index jumped 1.4 per cent, the biggest monthly increase since last May. The CPI rise, however, was attributed mostly to seasonal factors. **Avi Machlis, Jerusalem**

MEXICAN ECONOMY

Surge in industrial output

Mexico's industrial output surged a vigorous 15.2 per cent in March compared with the same month in 1997, suggesting economic growth in the first quarter – to be announced tomorrow – was surprisingly strong. The finance ministry acknowledged that part of the unexpected increase was because this year Easter week fell in April, rather than March as it did last year, meaning factories produced three days' more goods. Factoring out the Easter effect, the rise in industrial production would have been 8.9 per cent, still higher than most economists had forecast.

That figure bodes well for first quarter gross domestic product data. Economists say strong first quarter growth helped boost tax collection in the quarter by 18.4 per cent. That allowed the government to post a modest 1.7bn budget surplus in the first three months of the year despite falling world oil prices. **Henry Tricks, Mexico City**

World trade party-goers look for the next big leap forward

World leaders gather in Geneva today to celebrate the international trade system's 50th anniversary. Guy de Jonquières and Frances Williams report on the hopes and fears surrounding global liberalisation

The World Trade Organisation's ministerial meeting which opens in Geneva today is more an excuse for a party than an occasion for big decisions. Still, many guests hope to get some useful business done between the speech-making and carousing.

The meeting marks the 50th anniversary of the multilateral trade system. Renato Ruggiero, WTO director general, aims to use it to raise the institution's political profile and win at least a symbolic endorsement by world leaders of the importance of global trade liberalisation.

After much diplomatic arm-twisting, US President Bill Clinton has agreed to drop in, as has the British prime minister, Tony Blair. President Nelson Mandela of South Africa, Fidel Castro of Cuba and about 10 other leaders.

Two priorities seem set to top the agenda. One is to start mapping out the shape and structure of the WTO's next liberalisation push. Negotiations are due to begin on agriculture next year, and on services in 2000. The question is what other issues should be included, and how they should be handled.

Sir Leon Brittan, the European Union's trade commissioner, wants the WTO to decide to launch a full-blown trade round before his term expires at the end of next year. He claims support from the EU's 15 members, Japan, Australia and some other big agricultural exporters.

The US is more cautious, partly because of Mr Clinton's failure last year to win fast-track authority has left him without a mandate to conclude new trade agreements. With a view to impressing Congress, the US wants negotiations focused on areas likely to yield quick results.

Mr Clinton is unlikely to say in Geneva when he plans to renew his fast-track request. But he is expected to propose that the WTO's ministerial meeting next year, which will decide the negotiating agenda, be held in the US. That will be seen as an important political gesture of continuing US commitment to multilateralism.

Poorer countries have mixed views on a new trade round. For many, the top priority is to implement fully the Uruguay Round agreement, and in particular to ensure western governments fulfil pledges to liberalise imports of textiles and other products.

Alejandro de la Peña, Mexico's WTO ambassador, says Latin American countries favour broader negotiations than currently scheduled. He says such an approach is needed to avoid a widening gap between multilateral and regional trade liberalisation.

But other developing countries say they have too much on their plates to contemplate comprehensive new talks. Many strongly oppose expanding the WTO's agenda to include such regulatory issues as competition policy and investment, as the EU wants.

The other main discussion topic this week is likely to be a US-led drive to open up the WTO's cloistered operations to public scrutiny and encourage it to communicate and consult with a wide range of private sector interests.

"We want to discuss how best to ensure the institution does not remain mysterious. Secrecy in institutions does nothing but breed suspicions," says Charlene Barshefsky, US trade representative.

Other governments are starting to recognise that unless the WTO does more to spread the word about the benefits of free trade, it risks losing the public relations battle to increasingly vocal opponents of liberalisation and globalisation.

A movement called the People's Global Action aims to drive the point home this week. A motley collection of peasants' organisations, student and squatter groups and far-left trade unions, it plans demonstrations in Geneva to support its claims that globalisation hurts the poor.

However, governments may find it hard to agree a strategy on how to respond to such attacks. Some suspect the US really wants to give a bigger say in the WTO to domestic lobbies, such as environmental groups and trade unions, which are influential in Democratic party politics.

Poorer countries claim many of these lobbies are more interested in restricting, than in freeing, trade, by making liberalisation conditional on other countries meeting US environmental and labour standards.

The risk of conflict between global trade rules and environmental policy has been underlined by a recent WTO disputes panel finding against a US law that restricts imports of shrimp caught in nets that can trap turtles.

US environmental groups, some of which will be at the WTO meeting, are furious at the ruling. They also accuse Mr Clinton of failing to live up to a promise to get the WTO to agree on how to deal with environmental questions.

These groups' protests may not be loud enough to spoil the celebratory mood in Geneva this week. But they may succeed in grabbing some of the limelight from leaders and ministers.

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WTO waters down rallying cry for open trading system

Weary trade diplomats yesterday put the finishing touches to a draft declaration to be issued at the end of the WTO's second ministerial meeting on Wednesday, writes **Frances Williams.**

The declaration was initially intended more as a rallying cry for the open trading system than as a policy statement, but agreement was delayed by arguments over improved WTO transparency and sustainable development.

The final watered-down draft simply calls on members of the organisation to consider ways of improving transparency in order to build public support for the multilateral trading system.

Developing countries, suspicious that rich nations could use environmental concerns to raise trade barriers, also insisted on twinning the objective of economic growth with that of sustainable development.

INWARD INVESTMENT PARTS OF SOUTH-EAST WALES MAY LOSE ASSISTED AREA STATUS TO BOOST MORE DEPRIVED AREAS

Ministers plan to refocus Welsh funding

By Juliette Jowit in Cardiff

Areas of south-east Wales, envied for their success in attracting overseas investment, could lose their assisted area status, which is worth millions of pounds in government subsidies.

The proposal is being considered by the Welsh Office as part of a new economic strategy – to be published next month – to attract more investment to deprived western and rural areas.

It is likely to meet opposition in the targeted areas around Newport and Cardiff but will be popular in other parts of Wales, which have become angry at the growing economic disparity.

Concern has mounted in recent years with south-east Wales clinching projects such as the £1.7bn ($2.8bn) LG electronics investment, and, last year, a £30m scheme by computer giant Acer, which the Welsh Development Agency failed to lure west of Cardiff.

In an interview with the Financial Times ahead of this weekend's Wales Labour party conference, Ron Davies, the Welsh secretary, said the aim was to try to redress the balance.

One plan is to scale down or abolish regional selective assistance funding from the Treasury for already successful areas along the M4 motorway to Swansea, encouraging companies wanting subsidies to move to west or mid-Wales.

There is also the possibility of bargaining – an agreement to downgrade areas of south-east Wales would ensure that west and mid-Wales secured Objective 1 status for European Union funding of up to 75 per cent of projects.

"As long as they [companies] know areas around Newport and Cardiff are on the assisted area map, they know if they opt for that part of Wales it will get them RSA," he said.

To prevent companies going elsewhere in the UK or Europe, money saved in south-east Wales could be spent offering greater subsidies in west and mid-Wales, or invested in communications and infrastructure.

"If there are, as there are at the moment, mobile inward investment projects, we have to do what we can to attract them," Mr Davies said. "But what I think will happen in future is Wales will be more critical in an assessment of them by location and very serious questions will be asked about a future Acer project in the south-east."

Eluned Morgan, Labour member of the European Parliament for Mid and West Wales, said such action was needed to tackle an "economy on its knees" – where gross domestic product was less than 75 per cent of the EU average – while still protecting the "economic miracle" of existing investors.

Ron Davies, minister for Wales, 'aims to redress balance'

Cardiff site for $25m freight terminal

The government will today announce a £15m ($25m) rail freight terminal for south Wales, expected to take up to 40,000 truck journeys off the road each year, writes Juliette Jowit.

After years of controversy and delays, Ron Davies, the Welsh secretary, will unveil the site at Wentlooge, just east of Cardiff.

The project will provide direct rail links to Europe for companies that previously had to take goods by road to Birmingham or London.

Official estimates claim the combined annual saving for private-sector users will be £20m after 10 years.

Peter Hain, the Welsh Office minister who brokered the deal, said: "It will be an enormous benefit for south Wales and will be an added magnet for inward investors who want to go straight from Wales into Europe."

The scheme has £10m of public funding from the Welsh Development Agency and Cardiff city council. The terminal should open in 1999.

Siemens takes to road to urge euro readiness

By Clay Harris

Siemens, the German industrial group, is stepping up its efforts to alert UK customers and suppliers to the implications of the euro.

Already a strong campaigner on the issue, Siemens last week took its crusade on the road, hosting seminars in Glasgow, Scotland; Manchester, north-west England; and in London.

While arguing that companies must prepare for dealing in euros, Siemens' UK subsidiary has taken pains to avoid any hint of compulsion. Siemens spent DM3.5bn ($1.92bn) last year with 12,000 UK suppliers. Bernd Euler, finance director, said: "We will not use any pressure on our customers or suppliers to deal with us in euros. That would be foolish."

He added: "We will have significant business over the next years in sterling. We have to pay our employees in pounds, so we need turnover in pounds."

Moreover, in spite of Siemens' desire to balance its euro receipts with euro spending, smaller suppliers would "not be the first target to get rid of the euros that we get from our customers", Mr Euler said.

But suppliers not willing to deal in euros would be at a competitive disadvantage and likely to be obliged to bear foreign exchange risk or sweeten their terms with lower prices. Mr Euler also pointed out that the euro would affect investment decisions. Citing Siemens' £1bn investment in a semiconductor plant in north Tyneside, north-east England, he said: "We are still happy with the decision we made, but the strong pound is definitely a burden to us."

Arms-to-Africa row shows importance of being well-read

Ministers will now be under greater pressure to absorb and inwardly digest their briefs, says **David Buchan**

If there is one certain result from the "arms-to-Africa" affair, it is that Foreign Office ministers will have a lot more paper to read in the future.

During the furore about British intervention in Sierra Leone, UK diplomats have seen how even the loftiest of their number can slip up on the issue of briefing ministers.

The Foreign Office had been rather savouring the entry of its top official, Sir John Kerr, into the affair. Having suffered press and ministerial criticism, the diplomats relished the idea of Sir John galloping to their rescue on Thursday before the House of Commons foreign affairs committee.

And battle on their behalf he did. Indeed, he overdid it – appearing to suggest that Tony Lloyd, junior minister responsible for Africa, had been told more by officials than he had disclosed to the House of Commons in March.

Just hours later Sir John rushed out a statement, saying that a re-reading of the briefing paper given to Mr Lloyd before a March 12 debate on Sierra Leone contained a reference to Sandline International, the UK military consultancy at the heart of the row about Britain's role in the restoration of President Ahmed Kabbah; but that there was no mention of the possibility that the company had broken United Nations sanctions or was the target of a customs investigation.

The extraordinary sensitivity to Mr Lloyd of Sir John's initial inference was clear from a matching statement from the minister. He said that back in March he had not been "briefed, told, advised or in any other way informed orally or in writing" of the sanctions-busting allegation or investigation.

Quite what Mr Lloyd meant by "any other way" was not clear. But his statement has reinforced the impression among diplomats that they must not only put more on paper to their current masters, but also check that ministers absorb and inwardly digest their briefs.

Such a regime is in contrast to the picture painted by Sir John of devolved responsibility inside the Foreign Office. He had been content with the way the Africa desk had dealt with Sandline: taking the company's phone calls for any light these might shed on the situation in Sierra Leone, keeping these conversations "one-sided" and giving nothing away in return, and passing allegations of sanctions-busting on to customs – all this without telling their chief.

"I don't feel officials were in any way at fault in not telling me" of these, Sir John said.

He was finally told in early April, when it emerged that Sandline's defence would be to claim Foreign Office complicity. Even then: "I was not hugely concerned because I was confident that these guys who work in the Foreign Office would have got it right."

He passed the news to Mr Lloyd, but "did not feel it right to bother" Robin Cook, the foreign secretary, "who is supposed to be laying out strategy", especially during the busy time of Britain's six-month presidency of the European Union.

This devolution of responsibility has suited not only Sir John's desire to get more involved in policy than his predecessor, but also Mr Cook. He made clear his wish to focus on a few big issues and to keep the minor ones out of his boxes of briefing documents – an example that appears to have been followed by junior ministers.

To the old guard, including one of Mr Cook's ministerial predecessors, Lord (Douglas) Hurd, this smacks of laziness. To others it has been a welcome change from micro-management.

Mr Cook will now have to change his style and end up reading far more dispatches than if he had never made a fuss about not being briefed on Sandline.

Coalfield rescue plan attacked

By Andrew Taylor, Utilities Correspondent

The UK government should force generators to sell unwanted coal-fired power stations rather than pursue a coalfields rescue scheme that would increase customers' electricity bills, ministers were warned today.

An open letter from consumer groups to Geoffrey Robinson, a Treasury minister, published today in the London edition of the Financial Times, says helping coal communities should be regarded as social policy and be paid for by taxation rather than electricity charges. The Electricity Consumer Committees, the Energy Intensive Users Group and the Utility Buyers Forum are concerned the government will seek to protect coal markets by continuing its moratorium on building gas-fired power stations.

The moratorium was imposed last year to allow the government's review of power station fuel policy to be carried out. The findings are due to be announced by the end of next month.

An extension to the ban is part of a deal to safeguard the deep-mine coal industry canvassed by Mr Robinson. He wants to spare the UK's remaining mining areas the economic deprivation caused by closures since 1985.

However, there is opposition to the plan within government, and those close to the review stress that is only one of a number of options being considered. "Extending the moratorium would be a very blunt instrument," said one senior member of the government.

Customer groups say an extension of the moratorium would restrict competition. They complain that the three large coal burning generators, National Power, PowerGen and Eastern Electricity, have used their market power to manipulate wholesale electricity prices. They add that generators would rather mothball or close a coal-fired plant than sell it to a competitor.

The letter to Mr Robinson says: "At the very least they should sell mothballed plants or allow tolling [a form of leasing] giving greater coal burn. The current market encourages generators to shut coal plants as it pushes up prices."

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NEWS DIGEST

BROADCASTING

Magazines to move to television format

Some of the UK's best-known magazines are to debut on television with the launch this year of a channel dedicated to magazine-related programmes.

Four of the most prominent publishers of titles ranging from Loaded, a men's lifestyle magazine, to The Beano, a children's comic, will tomorrow announce plans for the Magazine Channel. It will be the first time a channel has been dedicated to programming based on magazines.

IPC Magazines, the UK's biggest consumer magazine publisher, which owns popular titles such as Loaded and Marie Claire, has joined forces with DC Thomson, publisher of The Beano; Haymarket Publishing, the company co-founded by Michael Heseltine; and British European Associated Publishers, owner of The Puzzler.

It will broadcast on digital television for about six hours a day, rising eventually to 24 hours. Headwater Cross-Media, the consultancy developing the channel, is talking to British Digital Broadcasting, the pay-TV company owned by Carlton Communications and Granada Group, about the Magazine Channel becoming part of BDB's digital terrestrial service, which launches in the autumn, and negotiating with United News & Media, which has a stake in S4C Digital Networks, a digital terrestrial TV company. **Cathy Newman, London**

ECONOMIC GROWTH

Poll sees further slowdown

A new poll of business polls predicts that economic growth will continue slowing, hitting an annualised rate of 1.9 per cent in the last quarter of this year. The monthly BDO business trends report, launched today, covers 11,000 respondents and 5m employees, by bringing together the results of the main UK business surveys. The report is compiled by BDO Stoy Hayward, business advisers, with the Centre for Economics and Business Research. **Simon Kuper, London**

UK COMPANIES

Profitability ends 3-year rise

Return on capital by UK companies is falling after three years of almost constant growth, says a survey today by Experian, the business information company. The decline presages job losses this year. Return on capital – or profitability – fell from 9.7 per cent to 9.5 per cent after inflation in the last quarter of 1997, and may have fallen further, says the survey based on financial results of the UK's 1,000 largest companies. The sharpest declines were in electronics and engineering, both vulnerable to the pound's strength. **Simon Kuper, London**

HEALTHCARE

Insurer launches new scheme

Norwich Union Healthcare, Britain's third biggest health insurer, is launching Britain's first insurance product to cover services provided by family doctors. The scheme will be backed by a 24-hour, year-round helpline, with home visits available at a price. The package – which follows other, so far largely unsuccessful, attempts to move primary care into the private sector – involves a tie-up with Medicentres, the small but fast-growing chain of drop-in doctor services run by Sinclair Montrose, in which Norwich Union has a 5 per cent stake. **Nicholas Timmins, London**

AIRLINES

BA says sorry to Branson

British Airways has apologised to Richard Branson, chairman of Virgin Atlantic, for accusing him last week of hypocrisy. It has also recalled and destroyed all copies of its weekly staff newspaper, BA News, which repeated the allegation.

The apology followed press reports over an 18-month European Commission investigation into BA's relations with travel agents. Last year, Brussels threatened to fine BA over its sales techniques. Sir Colin Marshall, BA's chairman told Mr Branson he regretted BA has used the word "hypocrisy" in a press release. **Michael Skapinker, London**

TELEVISION

Strike threat at BBC

The BBC is being threatened with two 24-hour strikes which could disrupt coverage of important sporting events, the National Lottery and other popular programmes. The biggest union in the BBC, Bectu, which represents cameramen, sound engineers and lighting technicians, yesterday said strikes would take place on June 4 and 9 over proposed changes in working practices and the structure of the corporation.

In a ballot, 69 per cent supported strike action against multi-skilling and salary management proposals. In a separate vote, 73 per cent voted against setting up Resources Ltd, a subsidiary, to handle some existing BBC operations such as outside broadcasting. **Jimmy Burns, London**

LORD CUDLIPP

Former Fleet Street editor dies

Lord Cudlipp of Aldingbourne died yesterday aged 84, his family announced. He died at his home in Chichester, West Sussex, after being ill for some time with lung cancer.

He became Fleet Street's youngest editor at 24 when he was appointed editor of the Sunday Pictorial, later renamed the Sunday Mirror.

Former Daily Mirror editor Richard Stott – now a columnist with the News of the World – said: "Hugh Cudlipp was one of the greatest tabloid journalists there ever was. He was the architect of the Mirror of the 40s and 50s, and the man who made the Mirror, together with Cecil King. They made a superb partnership."

INSIDE TRACK

LUCY KELLAWAY

Prepare to survive in brave new workplace

Lucy Kellaway on the post-job era where you must "leverage your uniqueness" and develop a passion for learning

Are you a chameleon-like day-to-day value adder? Do you turn everyday life into a learning lab? You don't? It seems you are not ready for the workplace of the future.

I have been reading *Work This Way*, the new book by Bruce Tulgan, the US's youngest management guru. He has chosen to add his own chameleon-like value through the study of Generation X. In this volume he tells us all we need to know about how to survive in the brave new world. The first *step* is to "leverage your uniqueness", step two is to "globalise yourself". You must also develop a passion for learning and learn what you love. (If you don't know what you love to learn, you can keep a diary of your "spontaneous learning" which will help you find out, he advises.)

This would be thoroughly depressing were it not for the fact that this future is based on a shaky premise. "It's all over," Mr Tulgan writes on the back cover of the book. "All of it. Not just job security. Jobs are all over. We have entered the post-jobs era and there is no turning back."

This is tosh. Jobs are not over. Neither is job security. The latest surveys in the UK show that typical managers are in their 40s and have been in the same job for about a decade. That doesn't sound very post-job to me. Most young high flyers say that they might change employers, but most of them stay put.

And what do employers want? Do they want voracious learners or uniqueness? According to a survey conducted by Caliper, a Princeton-based consultancy, what they want is good, old fashioned, conscientiousness.

What *has* changed are people's perceptions. If enough people like Mr Tulgan go on about how much things have changed, people start to believe it. There has been some change at the edges. People do switch jobs a little more often, a few lucky people can work flexible hours, people train more than they used to. But all this is marginal. The truth is that the present is pretty much like the past, and the future will be much like the present.

* * *

If ever there was someone who has globalised herself and leveraged her uniqueness it is Anita Roddick. But far from being in tune with the workplace of the future, she is so much at odds with it that last week she stepped down as chief executive of Body Shop. When I had lunch with her last summer she made clear what she thought of the young people Body Shop employs: they were risk averse, legalistic, ambitious, not very imaginative, and always trying to do things by the book.

* * *

"Lucy, Try this, it works! – S." The message was on a Post-it note stuck to an article about how to improve your public speaking. Who was S? And why were they sending it to me? I cast my mind back to the last occasion I had spoken to a group – was there someone in the audience who felt moved to offer help? But it must be someone I knew well, or else they would not sign themselves S. I looked at the envelope for further clues and discovered that the person didn't know me at all – they had spelt my name wrong.

And then I saw that the article was an advertisement and realised the whole thing was a set-up. Colleagues report that they, too, have received advertisements in the guise of cuttings sent by friends, and each of them has been taken in – for a while. What a clever idea, you might think, at least it made us look at the thing. On second thoughts, maybe not. No one likes being duped; it is not a good basis for closing a sale.

* * *

Doug Ivester, the new chairman and chief executive of Coca-Cola, is a prototype boss for the 21st century. That is the view of Fortune magazine which described how he spent his first 24 hours on a visit to Shanghai. He woke up at dawn to open a bottling plant, had back-to-back meetings, hosted a dinner and passed half the night combing the city looking for vendors of his fizzy beverage. Were I a Coca-Cola shareholder I would have mixed feelings. Does it show that he is driven, obsessed with the brand and determined to make it more successful? Or does it show that he is heading straight for burn-out, unable to delegate or set priorities. There is a lot to be said for bosses who know the value of a little beauty sleep.

PROFILE STAN SHIH, ACER CHAIRMAN

The high priest of Taiwanese high-tech

Laura Tyson on a visionary who eschews the trappings of wealth and power

In his native Taiwan, Stan Shih, the chairman of computer manufacturer Acer, is revered by many as a visionary. His popularity verges on cult status. A self-made man, he has inspired a generation of high-tech entrepreneurs. His company is the crown jewel of the government's Made-in-Taiwan campaign to promote the island's industry. So highly is he esteemed that Lee Teng-hui, the president, once considered inviting him to become premier.

But some of his peers in the business community have their reservations. He is perceived by many as a latter-day Don Quixote: brilliant but possessed by impossible dreams, tilting haplessly at the windmills of international commerce.

Mr Shih has devoted much of his career to the single-minded quest of building his company into a top international brand name and, by extension, reversing the negative image of Taiwanese products in the global marketplace.

"We believe that intellectual property, which includes creating a brand name, is the future of Taiwan's competitiveness," he says. "That is the reason Acer has this vision and commits much more resources than other Taiwanese companies to this area."

Mr Shih plans to help fuel the revolution by offering venture capital to establish 100-plus software companies by 2010. By the same year he aims to have a third of Acer's profits and a sixth of its revenues derived from software.

The centrepiece of the plan is Acer's 425-acre Aspire Park, now under construction in northern Taiwan. Mr Shih describes it as a "mini-Silicon Valley", which he hopes will one day produce the "Bill Gates of Taiwan".

"We are world-class in many areas, especially in high-tech manufacturing," he says. "But to cultivate a software culture with the necessary creativity, innovation and marketing skills takes much longer. We have to start now, because Taiwan's competitive edge can only last 10 more years."

As part of the drive to create a brand name in software as well as hardware, Acer recently set up an online ticketing joint venture with Hong Kong-based Golden Harvest, the world's biggest producer of Chinese-language films. The company is spending US$10m to sponsor the Asian Games and is providing computer systems for the event.

Mr Shih's vision has brought Acer to where it is today, though it has often been a rough ride. After nearly going bankrupt in the early 1990s, Acer now ranks number three in total PC sales, but much of its business is supplying PCs under contract to western brands. Its own brand is only the eighth biggest in the world; and its goal of reaching the top five appears more distant than ever, notwithstanding an announcement that Acer will take over Siemens' PC manufacturing plant in Germany.

The company's attempt to make a splash in the crucial US market with the sleek Acer Aspire PC flopped disastrously, due largely to marketing failures. That cost the company $120m in 1996 and 1997. The troubles at Acer America, coupled with losses at its memory chip joint venture with Texas Instruments, led to overall losses of $141m last year – Taiwan's biggest corporate loss on record.

Mr Shih is philosophical. In his book *Me-Too is Not My Style*, he details the many setbacks Acer has encountered – and the lessons learned – since it was founded in 1976. "I would not be surprised if I am the CEO in Taiwan who has paid the highest tuition in learning those lessons," he writes.

Critics say Mr Shih should abandon the brand-name drive and focus on what Acer does best – producing top-quality PCs and components efficiently and at a competitive price under contract. "At some point Stan has to make a decision [about] how much more he wants to invest in building a brand name," says Liu Chi-tung, an electronics analyst at SBC Warburg. "It is extremely difficult for a Taiwanese company to become a widely accepted brand in the US market."

Acer counters that its brand strategy helps attract contract orders. But the catch is that, if Acer does break into the top five, then it will be competing with its own clients. They might sever ties, depriving Acer of the economies of scale it derives from its flourishing contract business.

Mr Shih is just as single-minded in his personal life. He collects neither wine nor wives, eschewing Taiwan's customary trappings of wealth and power. He lives with his mother, his wife and three children, and buys clothes on discount.

There is no wood-panelled executive suite at Acer, nor any expensive paintings on the wall. Employees call him by his first name. His spartan office is only a few feet away from a floor full of staff. His door is usually open and employees are welcome to enter and ask questions.

His management style would not stand out on the west coast of America, but in Taiwan, where employees are often made to wear company uniforms and even senior managers are required to punch into time-clocks, it is nothing short of revolutionary.

At the core of Mr Shih's business philosophy is the belief that human nature is fundamentally good. He trusts subordinates, listens carefully, and delegates. Because he does not impose decisions, some complain that he is indecisive. But he believes that letting people make their own mistakes – and take responsibility for them – is good for personal growth.

Mr Shih describes his management model as "collective entrepreneurship". He says: "I do not like my colleagues to be yes-men, neither do I like the idea of being treated as a boss." Acer was among the first companies in Taiwan with an employee share ownership programme.

Even his wife, Carolyn, says in *Me-Too is Not My Style*: "My better half is so interestingly boring." She says her husband takes very seriously the conferences others regard as merely social gatherings. He is forever poring over large stacks of documents when in his car or on the plane.

Mr Shih is a wellspring of folksy aphorisms, management theories, motivational slogans and business psychobabble. Acer's manufacturing operations are based on the "fast-food business model" patterned after McDonald's. According to "Stan's smiling curve", speed is the main competitive edge, not cost. Under the "Acer 1-2-3" theory, corporate resources will first be allocated to taking care of customers, then employees, and finally shareholders. (That may help explain their disenchantment with the shares' performance.)

Mr Shih advocates "playing with an open deck" in staff relations. About his company, of which he and his family admit to owning 3.26 per cent, he says: "I would rather lose control and make money than be in control and lose money." Other favourite axioms include "Go big or go home" and "Where's the beef?".

From *go*, the oriental game of which Mr Shih is a devotee, he has adapted the strategy of "surrounding the city from the countryside". The moral is to establish a strong foothold in smaller markets before tackling bigger ones. In spite of the setbacks, that remains Mr Shih's dream.

THE ESSENTIAL GUIDE TO STAN SHIH

Born: December 18, 1944.

Early career: His father died when Stan Shih was three. He was raised by his mother who ran a small grocery store. He says she is the greatest influence in his life. From her, he learned his first business model. "Stationery offered higher margin but lower turnover, while duck eggs, though slim in margin, turned over cash every day. I made more money selling eggs than stationery," he says.

In contrast to many of his peers in Taiwan's high-technology industry, Mr Shih did not study or work abroad. He was hired from university as a research and development engineer. One of his earliest inventions was the electronic watch pen. He founded the forerunner of Acer with $25,000 (£15,000) collected from his wife Carolyn Yeh and other partners.

Favourite food: Chinese noodles. In deference to his mother, who is a devout Buddhist and a vegetarian, he eats little meat.

Hobbies: Apart from an occasional game of *go*, Mr Shih's chief hobby is work. Although trim, he recently took up golf and walking.

Mr Shih says there is a "poor young men's culture" at Acer. Early on he emphasised the "shortcomings of being rich" but concedes in his book that Acer nearly fell victim to those evils after flotation in 1988.

Fight jargon and win £500

If you hate gobbledegook and want to further the cause of plain English, enter a competition being run, for the second year, by the Financial Times and the Management Consultancies Association.

This is your chance to get your own back on your professional advisers. At the same time you could convert, with a clip of the scissors, the annoying rubbish filling your in-tray into a £500 prize.

We are looking for examples of jargon, gobbledegook and absurdly contorted prose from letters, reports, proposals, brochures, promotional material, books and so on, published over the last year.

Entries can be the work of any business or professional advisers, including:

- Management consultants
- Lawyers
- Accountants
- Bankers
- Business gurus

To enter the competition, simply fill in the form below (photocopies accepted) enclosing an example of the worst gobbledegook written or published since September 1 1997. No individual may submit more than one entry. Examples must be in English and should be no longer than 300 words.

Entries must be received by October 16 1998. The top three entries will each receive a cash prize of £500 and a collection of the best examples will be published in the Financial Times in November.

Financial Times/Management Consultancies Association

Business Jargon Competition

Entry form

Entries must be received by Friday October 16 1998

The competition administrator
The FT/MCA Business Jargon Competition
11 West Halkin Street
London SW1X 8JL

Name of sender

Address

Postcode

Telephone

I attach (please staple) my example for the above competition which was produced by (insert name of individual/firm/publication)

On (enter date)

Important You must give your name on this form

BUSINESS EDUCATION HONG KONG

Fear goes with the territory

Business schools in the former colony soon find out if they pass muster, writes **Louise Lucas**

International management colleges operating in Hong Kong are this month anxiously awaiting the results of one of the biggest tests they have ever faced.

Failure could mean they have to pull down the shutters on what has traditionally been one of the most lucrative markets for distance learning courses; a pass could be conditional on heavy investment.

The test is accreditation. The Hong Kong government, forced into action by a spate of charlatan courses which were expensive but poor quality, decided to clean up the territory's image by forcing all courses to register.

Organisers of some 240 courses offered in Hong Kong duly submitted their applications, and on May 23 will learn whether or not they may continue in business.

Quibbles against the rationale are almost minimal. Hong Kong is a fertile breeding ground for cowboy operators: education is highly valued, and courses which do not require career breaks are in big demand.

Nor do the academic criteria – essentially, showing that the course matches the home country course and that learning materials are comprehensive – raise any hackles.

Indeed, Joseph DiStefano, executive director of the newly opened Richard Ivey School of Business programmes in Hong Kong, describes the process as "very thorough and vigorous and fair".

However, in its zeal to ensure would-be students are not ripped off, Hong Kong has "over-corrected the tiller," says Rod Pryde, director of the English Language Centre at the British Council.

Henceforth, rooms used for teaching or exams must comply with the stringent fire safety standards required for schools: which means the distance from the classroom to the front door and the widths of the corridors are all under scrutiny.

Most galling of all for course organisers is the stipulation that premises must be on floors lower than 24m. In densely packed Hong Kong, where the vast majority of the population live and work above this level in 40 and 70 storey blocks, the rule is seen as excessive.

There is a let-out: courses without the means or willingness to go through the process can exempt themselves by linking up with one of the 11 local universities and colleges to offer joint programmes. Some 100 courses have sought this option.

Mr Pryde welcomes the choice, saying it will give courses more IT support and furnish local institutions with a more international outlook. Everyone wins in this situation, he says – except possibly agents.

Christine Jensen, programme director at Henley Management College, is less convinced. "There's a second agenda here, which is to give a little more credibility to the 11 institutions. A lot of schools will be linking, because then registration is almost nil."

But, like many of her peers, she sees less in it for the students themselves. Hong Kong MBA students are typically in their mid-30s, working full time. Their requirements are flexibility and convenience: many of the local institutions are in far-flung parts of the territory, and hours are strictly regimented within the working day.

Flexibility is everything: students, typically in their mid-30s and working full time, are not willing to wait in line

Ms Jensen says: "The people we deal with come Saturdays and evenings: they need service now, quickly, and are not willing to wait in line."

Thus the Henley Management College courses are among the 240 scrambling to meet stringent fire and safety requirements – the area giving the biggest headaches.

"Why does a person sitting an exam or learning have to be safer than a person who works there all day every day?" splutters Elaine Healy, Hong Kong representative of the Institute of Chartered Accountants of Australia.

Ms Healy, who represents some 40 courses, shares premises with one of the big accountancy firms in one of the smarter office blocks in Central, the prime business district.

When students meet for workshops or exams – a maximum 16 times a year – they have free use of an office. Unfortunately this will no longer be possible: the door is marginally too far away from the fire exit.

Students have free use of an office. Unfortunately this will no longer be possible: the door is marginally too far away from the fire exit

The government arm responsible for accreditation, the Non-Local Courses Registry, says it too queried the stringent regulations, and was told by the Fire Services Department that to issue a fire safety certificate it had to be "100 per cent sure" there were no risks to safety.

An exasperated Ms Healey has been trying to find alternative space, but few landlords are interested in such a sporadic tenant. She thought she might strike lucky with Hong Kong's recently expanded Convention and Exhibition Centre, which sits on the harbour and which played host to last year's handover ceremonies.

But she was foiled again: the building, she says, was not deemed safe. She has been told her only option is to rent out a room at the YMCA. There is no accountancy library there and the whole atmosphere is less professional. Yet it will incur additional expenses.

There are other costs. The Non-Local Courses Registry is charging HK$33,200 (£2,635) per course, and defining a course as any different entry or exit point. Thus an MBA course that can be completed in two or three years is interpreted as two courses, with registration fees of HK$66,400.

Annual checks will cost a further HK$16,600, although it is envisaged that after the process settles down these will only need to be carried out on a sporadic basis. The fees, say the government, cover its own costs of registering courses.

"The charges are enough to stop unscrupulous week-by-week designed courses, but it would also deter small volume high quality courses," says Mr Pryde.

He says that the costs, added to the chase to snap up the few suitable premises, pose a double whammy. "Ultimately, who will pay for registration and premises? The students."

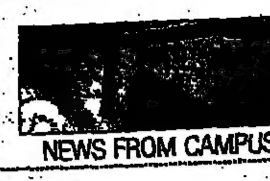
Privately, operators say, the government concedes there are problems with the law, which was enacted in July 1996. Subsidiary legislation was put in place one year later, just before China resumed sovereignity.

"The way it's being handled it's an absolutely exhausting mental process," says Ms Jensen. Ms Healy adds: "We had the change of sovereignity so it was rushed through very fast without a lot of thought given to it. Now we are paying for that."

The full extent of the price exacted has yet to be revealed, but students are likely to be among the casualties. Courses rejected by the accreditation board must cease operations, although they may appeal.

"Some people might be halfway through a degree which is then discredited and these people will have no comeback," says Ms Healy. "You are trying to protect these people, but in reality, you are going to destroy their lives and they will lose a lot of money for the parts of their degrees they have already sat."

This is acknowledged by the government. "Whether the student could claim compensation from the operator all depends on their contractual terms. But [if not accredited] the course has to be stopped," says Fanny Lam, senior education officer.



NEWS FROM CAMPUS

Virtually ready to start work at Wharton

Students joining Wharton's MBA-programme this autumn are already getting into the swing of things and contacting fellow students over the internet.

e"talk" is a web site developed to introduce new students to Wharton. What has proved surprising, says Gerry McCartney, the school's chief information officer, is how the prospective students are using the web site.

As well as asking the run-of-the-mill questions, the students have formed an electronic community, swapping ideas on accommodation and arranging face-to-face meetings. Mr McCartney believes this will help students hit the ground running when they start the MBA in the autumn.

About 500 prospective MBAs have already logged on to the system.
Wharton: www.wharton.upenn.edu/

Getting the Gehry look

Later this week the Weatherhead School of Management at Case Western Reserve University in Cleveland, Ohio, will announce a $40m expansion plan. The centrepiece will be a building designed by architect Frank Gehry, who designed the Guggenheim Museum in Bilbao, Spain.
Case: www.cwru.edu

Manchester scholarships

Ambitious women managers who want to study for an MBA can apply for a £16,000 scholarship to study at Manchester Business School. Two scholarships are available, one on the full-time and the other on the part-time programme. The scholarships are sponsored by the Guardian newspaper and applications close this month.
Contact: Helen Dowd, UK, (0)161 275 6311

Stern reserves Volcker services

Former chairman of the US Federal Reserve System, Paul Volcker, has been appointed as visiting professor at the Stern school at New York University. The professorship has been made possible through a donation from Henry Kaufman, president of Henry Kaufman & Company and a doctoral graduate from NYU in 1958.
Stern: www.stern.nyu.edu

Entrepreneurs cash in

The MIT Entrepreneurship Competition traditionally attracts high calibre entries, not least because of its first prize of $50,000 (£30,000). This year the competition was so stiff that the university declared two winners.

An anonymous donation of an additional $20,000 meant that both the winners – Volunteer Community Connection, which matches volunteers and nonprofit organisations, and Direct Hit, a software provider – received $30,000 each. Direct Hit already has venture capital funding of $1.3m.
MIT web.mit.edu/50k/www/

● Meanwhile, a team from the University of Georgia's Terry College of Business has won the international entrepreneurship competition at the University of Austin, Texas. The winning team, which beat peers from 23 other business schools, including Babson and Kellogg, took home a first prize of $15,000.

The team put together a business plan to manufacture and market a vaccine developed by a Georgia veterinary professor to sterilise female dogs without surgery.
Terry: www.cba.uga.edu/

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4873 Fax 44 171 873 3950

TRAVEL UPDATE

Savings on SAS frequent flight card

Business travellers taking frequent flights from London to Scandinavia can buy tickets for 10, 20 or an unlimited number of single flights stored on a card that can be used at automatic check-in machines. SAS, which has been selling the cards in Sweden, Norway and Denmark for two years, is making them available through UK travel agents. SAS says the cards offer significant savings: the card price of 20 single flights to or from Oslo is £750 less than the combined cost of 20 economy tickets bought separately.

Praise indeed

Trans World Airlines and America West have emerged as best US long-haul and short-haul airlines respectively in a survey for Frequent Flyer magazine. Both won praise from regular travellers for punctuality, convenient schedules, smooth check-in procedures and food service. America West was also rated above average on flights of more than 500 miles, as were Continental, United and American Airlines. Passengers said getting away on time remained their top priority. Scheduling, ease of check-in and seat comfort were also crucial but food was rated less important.

Arrive in style

Air Canada passengers arriving at London Heathrow can have suits pressed while they shower. The airline has opened its first arrivals lounge in the airport's Terminal Three for passengers travelling in Business First Class and top tier members of its Aeroplan frequent flyer programme. The lounge has 11 showers and a small business area with fax machine, printer and five work stations, each with a telephone and laptop connection. Air Canada plans this year to open a similar lounge in Vancouver and at its home base in Toronto.

Ladies at lunch

Women travellers shuddering at the prospect of doing business in France during the World Cup may find relief in an offer from Relais & Chateaux hotels. If four women make a reservation to dine at any of 100 French hotels and restaurants between June 10 and July 12, only three will pay. The restaurants include Au Crocodile in Strasbourg, Troisgros in Roanne and the Restaurant Michel Rostang in Paris. The deal covers only food, not wine.

East side story

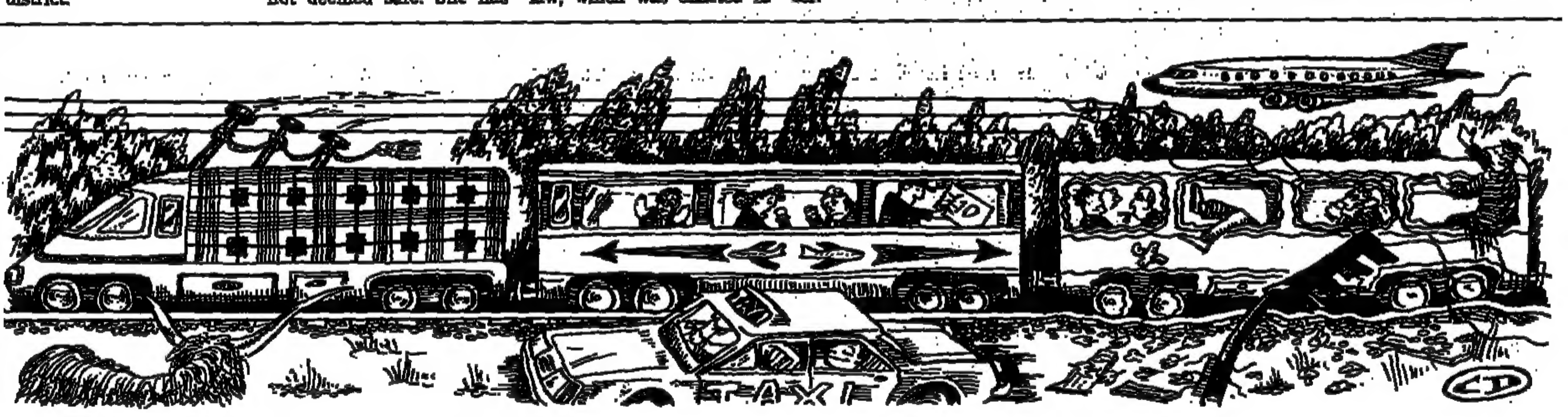
Toronto-based Four Seasons hotel plans to open a 140-room, five star hotel at Canary Wharf, in Docklands, east London. The group has been encouraged by the lack of top hotel accommodation in an area of rapid business growth, by the extension of the Jubilee Underground line to the area and the presence of nearby London City Airport.

Roger Bray

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	23	25	25	24	26
Hong Kong	30	29	28	28	29
London	22	23	23	22	21
Frankfurt	18	21	22	22	19
New York	29	27	22	24	29
Los Angeles	20	20	18	19	20
Milan	22	25	27	25	26
Paris	24	22	23	23	22
Zurich	16	19	20	23	21

Information supplied by PA WeatherCentre — Maximum temperatures in Celsius



UK BUSINESS TRAVEL BY TRAIN TO SCOTLAND

Double-headed contest for travellers

Tom Lynch on the companies competing in the race across the border

The train beats the aeroplane for most business trips under a couple of hundred miles, given the time spent checking in, trailing in and out of airports and waiting for baggage. On longer trips, like London to Edinburgh, the contest is more equal, though the chance to spend time reading or working gives the train the edge for centre-to-centre trips.

For longer journeys, trains have to try that bit harder. London to Glasgow is one of the few trunk routes on which two rail companies are competing for business. Great North Eastern Railways goes north from London via York to Edinburgh, then takes a curious dip south and back up to Glasgow. Virgin Trains heads north-west then north via Stafford, Wigan and Carlisle.

GNER started this particular contest with an advantage: east coast track and trains were modernised in the last decade, while Virgin took over much older rolling stock, running on elderly track and wiring.

Richard Branson put his Virgin brand on the trains, which was a bold move: the service is only as good as the track it runs on, so it has taken a bit of a pasting as it has turned in some poor figures for punctuality.

GNER's first-class coaches are modern, comfortable and furnished in a variety of shades of grey. My Virgin service from Glasgow favoured rosy chevron-patterned seats with lots of fawn elsewhere, though the company is about a third of the way through a refit – and new trains will be along in a few years.

The level of service is similar: the companies offer at-seat service from the buffet and full meals in the dining car, as well as The Daily Telegraph. Both also offer various executive packages, incorporating meal vouchers, sleepers and London Underground connections.

GNER does provide unlimited free tea and coffee, while Virgin charges £1.50 a time. But given the sometimes violent lurches on the west coast line in the Midlands and north of England, it is perhaps just as well Virgin's people are not roaming the aisles with pots of hot liquid.

The rocky ride on the west – where track improvements are promised – also makes a virtue of the modern fashion of serving food in vast soup bowls. The standard of catering in both trains shows some improvement on the old British Rail, which in any case did not always live down to the music hall jokes.

Both King's Cross (used by GNER) and Euston (used by Virgin) have lounges for first-class passengers. Glasgow Central does not, though there is a coffee bar on the other side of the station from the London platforms and a bar and restaurant upstairs where the departure boards used to be.

Buy your newspaper before you get to Glasgow Central, though; the kiosk beside the platforms has closed and the paper shop is cramped.

A tale of two tracks

TO HEATHROW AIRPORT

Cheap fares go down the Tube

Travelling between central London and Heathrow has become an unexpected pleasure. Fast Train, the forerunner of the Heathrow Express which is due to start next month, has been taking about 4,500 passengers a day between Paddington station and the airport in quiet splendour since January. And it has been excellent value for money at £5 one-way.

For a bruised veteran of the London Tube, it is a delightful experience, worlds away from the busy, jolting nightmare that is the Piccadilly Line. A few relaxed passengers join the plush new train at Paddington, waved in to the carriages by smiling staff in natty uniforms. Inside, there is room for baggage and piped music plays softly in the background. A video features gambolling dolphins and polar bears frolicking on the ice to soothe you before checking in.

Shortly after we left a smiling ticket inspector relieved me of £5. Just 12 minutes later we slid into Heathrow Junction, the temporary terminus for the service.

Granted, it comes as a bit of a shock to be deposited on a windy platform apparently miles from anywhere. However, we were guided politely on to waiting buses. Just a few minutes later the bus drew up outside the terminal, a few steps from the check-in desks.

But all good things come to an end. BAA, the privatised airports operator that is leading the £440m project, is doubling fares when the full service comes into operation, and suddenly it all looks a lot less like a good idea. The distance from train to check-in desk will be longer. The new stations are underneath the airport and the walk to the terminal will be "about four minutes", says Heathrow Express.

With one-way tickets £10, or £20 if you really want to throw your money away and spend 15 minutes wallowing in first class, a minicab at between £18 and £25 starts to look competitive – and it drops you right outside the terminal.

Save Our Railways, a pressure group, says the new service, at 68p a mile in second class, will be the most expensive of the rail links to UK airports. By contrast, the 26-mile journey on the Gatwick Express costs 56p a mile, while the best value is the 41-mile rail link from Liverpool Street to Stansted at 42p a mile. Cheapest is the Tube, which costs £3.30 to Heathrow from central London. BAA defends its pricing. "We're aiming it at the users of Heathrow," it says, remarking that 42 per cent of Heathrow passengers are business travellers. "We think it will be very competitive."

Kate Bevan

RAIL INFRASTRUCTURE

Train companies spending to make up for lost time

The adage that things get worse before getting better is particularly true with rail travel in the UK. Three years after British Rail became 25 private franchised train operating companies, performance has been mixed.

The companies inherited ancient rolling stock, slow trains and an image of unreliability and unpunctuality. Many have added comforts synonymous with air travel: new seats, more legroom, lounges and improved food. But being cossetted on-board counts for little if the train is an hour late.

The companies blame Railtrack, responsible for rail infrastructure, for delays. In its defence, Railtrack says that, until privatisation in 1996, it was constrained by public spending. "It's due to a lack of investment for 40-odd years."

The company is investing £16bn. The biggest project, worth £2.1bn, will modernise the west coast mainline, running from London via the West Midlands to Scotland, and last upgraded in the early 1970s.

High-speed (140mph), tilting trains will use it, cutting the London-Manchester journey of 2½ hours by 45 minutes. Great North Eastern Railway and Virgin Trains have ordered tilting trains that will bring London-Edinburgh down to 3hrs 30mins in 2000.

Lorraine Flower, marketing and sales director of GNER, says: "I would stress that we're no worse than airlines: it's just that people are less tolerant of a 15-minute delay on a train. The image of train travel is pretty shoddy whereas airlines are sexy."

Gillian Upton

Furrowed browser: Paul Taylor test drives Microsoft's latest package and evaluates when an upgrade might be worth considering Colin Beere

INFORMATION TECHNOLOGY WINDOWS 98

The same, but different

Microsoft plans to start production of its PC operating system today. **Paul Taylor** finds it evolutionary rather than revolutionary

Barring last-minute legal manoeuvres or delays, Microsoft, the world's largest software group, will release Windows 98, its new personal computer operating system, for manufacturing today. PC manufacturers and consumers wanting to upgrade their systems will be able to install the new software from June 25.

But in spite of the fuss and bother surrounding the planned launch of Windows 98, some PC industry commentators argue that it represents little more than a collection of "bug fixes" that Microsoft should have supplied free.

"I don't see any compelling reason to buy Windows 98 except for the bug fixes and the USB [Universal Serial Bus, a faster and more convenient way to connect peripherals] support," says John Dvorak, one expert.

Having run a succession of "beta" or test versions of Windows 98 on my PC for the past five months, I sympathise but think the critics are being a little harsh. That said, it is indeed debatable whether it is worth forking out £85.50 for the upgrade (£161.50 for the full version). That is, of course, unless you want particular features not available in Windows 95.

Windows 98, as one beta tester noted, "is the same, but different" from Windows 95. This is particularly true for PC users who are already running Microsoft's Internet Explorer 4 web browser which is embedded in Windows 98 (the main cause of the antitrust investigation by the US Justice Department).

Netscape Navigator fans can, of course, continue to use that browser, and keep it as the default, ensuring that it opens when you click on an internet link. But while you can remove the IE4 icon from the screen "desktop", it is risky to try to remove the program entirely.

In common with IE4, Windows 98 enables users to customise the information that appears on their screens and sign up for TV-style "channels" which feed information over the internet to the users' systems automatically. Like most early users of so-called "push technology", I disabled this annoying function immediately.

However, Windows 98 incorporates the familiar browser interface with its forward and backwards arrows, "favorites" button and links. Adopting this makes Windows 98 easier to use and means that there is no distinction drawn between a file or programme stored on a local hard drive and one sitting on the opposite side of the world on an internet server.

In general Windows 98 is smoother, faster and more reliable than its predecessor – but nowhere near as big a leap in terms of look, feel and performance as Windows 95 was.

Among the most notable improvements are: faster start-up and shut-down times, particularly on new PCs; improved support for multimedia and games; in-built support for new peripherals including digital versatile disc drives, advanced graphics port video cards and devices like scanners and printers. The latter are expected to migrate towards use of the USB.

In terms of hardware requirements, Microsoft claims Windows 98 will run on a machine fitted with an Intel 486/66Mhz microprocessor with 16Mb of memory, a CD-Rom drive and about 200Mb of free hard disk space. In reality, however, unless you have at least a Pentium 133Mhz machine it might be better to consider replacing the PC.

It is debatable whether it is worth forking out £85.50 for the upgrade

Some of the other features in Windows 98, many of them hidden beneath the surface, which could make an upgrade worth considering, include:

- **Bug fixes:** The final version of Windows 98 will incorporate all the bug fixes, "patches" and updated "drivers" for other devices that have been released for Windows 95. In addition, Windows 98 includes an update feature that connects over the internet to a Microsoft site to collect future bug fixes and updates.
- **Performance:** Microsoft claims applications will start up more quickly compared with Windows 95 and run a bit faster.
- **Problem Handling:** Even in its beta form Windows 98 is more stable than its predecessor and less liable to "crash" or "hang". The new software also includes features that make it easier to diagnose problems and is more helpful if things do go wrong.
- **Plug-and-Play:** In Windows 95 the feature designed automatically to configure new devices attached to a PC was widely known as "plug-and-pray". In Windows 98 it is still not perfect, but is a lot better. Portable PC users, in particular, will value its improved handling of modem communications devices.
- **Portable power:** Windows 98 also gives users much more control over notebook PC power consumption.
- **Hard disc space:** FAT32 is a new type of file format – the way data are stored on a disc – that is more efficient than its predecessor and allows data to be packed more tightly on a hard disc.
- **Internet access:** Aside from integrating the IE4 web browser, the software also includes multilink channel aggregation that allows users to combine multiple modems and phone lines for faster internet access.

In spite of these advances, International Data Corporation, the market research company, forecasts that early sales of Windows 98 will lag 15 per cent behind those of Windows 95 after its launch. IDC expects Microsoft to ship 12.8m copies of its new operating system this year, compared with the 19.5m copies of Windows 95 that were shipped in 1995.

One reason for the projected shortfall is the lack of any real reasons for corporate PC users to upgrade their systems – particularly since many are struggling to come to grips with Year 2000 computer date problems and the need to prepare for Emu.

In addition, since the launch of Windows 95, Microsoft has pushed Windows NT as its flagship operating system for corporate computing and has clearly positioned Windows 98 as a consumer upgrade.

As a result, many companies that are still running Windows 3.x or Windows 95 are likely to wait for the next version of NT, NT5. This is due to be launched some time next year and will include several features designed to reduce cost of ownership and improve communications and manageability.

Overall, Windows 98 does represent an improvement on Windows 95. But it is an evolutionary rather than revolutionary product and one that most consumers could afford to live without.

GERARD BAKER
FILE FROM WASHINGTON

Grand masters of spin strut their stuff

White House press officials have their own lingo and know just how to keep reporters hungry for the next sound bite

"We'll have a readout on the pull-asides at a gaggle at 7 o'clock."

As with most of the indispensable instruments of modern democracy, the argot of news management has been refined, distilled and perfected by the White House.

While the US president himself speaks directly to Washington and the world in a declarative simplicity designed to capture the grand themes of the US global view, his spokespeople communicate with the press in a convoluted language, replete with half-recognisable syntax and weird neologisms, which captures the demands of news control.

Nowhere is this dichotomy better illustrated than when the president travels abroad. This weekend, President Bill Clinton has been in Britain for the annual Group of Eight summit. His message has been unrolled in a series of suitably momentous speeches. But officials have been chattering to the media in a language filled with ersatz technicalities, like senior air force commanders briefing and debriefing crews about a risky sortie.

In its simplest form, this exercise is known to the world as spin doctoring (rotational medicine, the polysyllabic humorists like to call it), imitated nowadays the world over but inimitable in its pure American form.

But the media operation of the White House is in reality much, much more than mere spin doctoring. In other countries, officials may brief and guide, threaten and cajole, but even the professional image consultants of Tony Blair's British government are mere pygmies in the Amazonia of American politics.

That is because the simple briefing process is part of a much broader control operation by the White House.

Foreign travel emphasises the importance of that role. The administration ensures a culture of almost complete dependency for the White House reporters. This covers not just the obvious – the regular flow of news that is the aqua vitae of all journalists – but the little essentials and inessentials of life for hard-working reporters on the road.

From the moment they leave the White House until they return bearing their knick-knacks and souvenirs, reporters are conveyed, cossetted and catered for by the administration.

For a princely fee the White House flies them around the world and keeps them spoonfed with a steady supply of victuals, shopping trips and passport control.

No other government comes close to the all-inclusive service provided by US officials. At the White House reporters sit hungrily waiting for the latest briefing from a senior official.

In the process, however hard they resist, journalists become co-opted into what is a remarkably efficient news management process.

Every word of every briefing or press conference is recorded and immediately transcribed for the benefit of reporters.

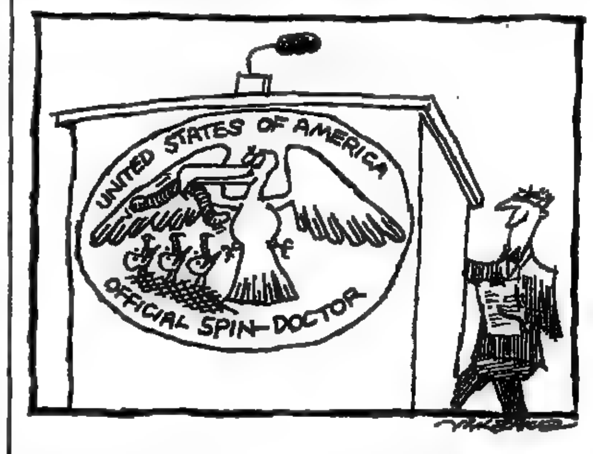
Everywhere the president goes, he is accompanied by the famous "pool" of reporters where his every move is observed by a handful of reporters and immediately relayed to the rest of the pack back at the press centre. At carefully selected moments, senior officials make themselves "media available".

And the semantics are an essential component of this co-option of the poachers by the gamekeepers. Knowing the language subtly makes us all feel part of the inner decision-making process.

In case you were wondering, a readout is, well, a read-out by an official of what happened at a meeting of senior members of the administration. A pull-aside is a brief scheduled meeting between two leaders in the context of a broader gathering – in this case of the G8 summit heads. A gaggle is a briefing. Only it is an informal briefing conducted on the fringes of a larger press event such as a news conference.

The overall effect is to ensure that the White House controls the content and the flow of news down to the last detail.

This can lead to tensions. All but the laziest or most suggestible of reporters feel irritated by their dependency on the White House and occasionally they revolt. It is fair to say that a significant part of the explanation for the president's troubles over alleged sex and legal improprieties in the past few months is that they have been taken up with such intensity by reporters because of this frustration with the White House.



At last they have watched in glee as officials spin out of control, unable to manage the news.

But it takes a powerful alternative source of news – like a leaky independent prosecutor's office – to trump the White House operation.

When it does, the howls of anguish from the White House, as officials rail against the outrageous behaviour of the press and those who would seek to manipulate them, are dutifully reported by all of us – whether from a gaggle, a readout or a pull-aside.

TIM JACKSON
ON THE WEB

Internet profits begin @Home

Cable access should make modems obsolete and its pioneer rich

A speaker at a recent conference in Paris on the internet and telecommunications put three questions to delegates. Do you use the internet from home? Are you dissatisfied with the speed of access? Do you live in an area served by cable television?

An overwhelming majority of the audience answered yes to each of these. The questioner, John O'Farrell, was delighted. For those answers suggest that his job as international chief of the @Home Network may not be a tough one.

@Home is the Silicon Valley-based company that has pioneered internet access through cable television networks. It was last covered in this column when it started its first service in Fremont, California, 15 months ago. Since then much has changed.

Most startling is the company's valuation. Founded as an unusual joint venture between TCI, a US cable business, and Kleiner Perkins Caufield & Byers, a venture capital fund, the company is now publicly quoted and boasts a market capitalisaton of $5bn (£3bn).

Having started with just one cable partner @Home now has nine, giving it access to the 50m homes passed by these firms. Customers can sign up for cable internet without subscribing to the TV service.

As those three conference questions showed, its pitch to customers is compelling. Anyone who has experienced the frustration of the so-called "world wide wait" is easy game for a service that is two orders of magnitude faster than a modem. @Home has signed up 6-8 per cent of the customers to whom it has offered its service – equivalent to about one-third of the households with internet access.

Although the company does not own any of the infrastructure at the customer's end, it charges its cable partners 35 per cent of the $40 monthly subscription fees paid by consumers – and a higher percentage of the advertising and transaction revenues from online shopping.

You might expect a cable company would be reluctant to give away such a large slice of a potential revenue stream. But the mass market – which a Morgan Stanley report predicts will result in half the internet service provision market moving from narrowband modem access to broadband cable-style access by 2002 – wants something more.

The average consumer, who is typified by internet provider America On Line's customer base, wants applications and services that take full advantage of the capabilities of a broadband network.

@Home has a range of news and entertainment content, and can record and store news clips. The network also acts as a channel for distributing downloaded software: while it remains impractical to use a modem to download a copy of Microsoft Office, for instance, it is easy to do so using @Home.

The network has also scored some early advertising successes. It claims CPMs (revenues per thousand impressions) of $50-$100, five times the average received by most web sites.

Some advertisers take advantage of its broadband features: *Match.com*, an internet dating service, ran video clips from happy customers describing how they found love, and saw a clickthrough rate, the proportion of people viewing it, of 28 per cent.

But even narrowband merchants such as *Amazon.com*, the bookseller, have bought long-term anchor tenancies from @Home. Amazon seems to view @Home as a potentially powerful participant in the wider internet access market as a whole, not a niche player.

And the next move? @Home is going international. Having set up shop in Canada in April 1997, it has struck a deal with two Dutch cable providers that will allow it shortly to launch a Netherlands service. It is also likely to announce its first deal in the UK in the next week or two.

The company faces a different class of partner from @Home's US business. Since many cable companies in Europe are also phone companies, potential partners face the loss of an existing revenue stream if they sign up – because narrowband internet access brings in per-minute telephone charges in most European countries.

Over the long-term, however, more phone companies are likely to sign up as @Home partners. Although broadband will unquestionably start by taking narrowband call revenues, its advantages for consumers are so compelling that the phone companies will be forced to jump on board. Someone is certain to take away their sources of existing revenue. So it might as well be them.

tim.jackson@pobox.com

هكذا من الأصل

OPENINGS

SAINT LOUIS
Opera Theatre of Saint Louis's 1998 season opens on Saturday with a new production of Gounod's *Faust*, staged by Colin Graham and conducted by Emmanuel Villaume. Other highlights include *Katya Kabanova* staged by Joanne Akalaitis and the first US production of Alexander Goehr's *Arianna*. Performances, all sung in English, take place at the Loretto-Hilton Center at Webster University.

LONDON
Tributes to Leonard Bernstein (above) and Cole Porter are the pick of this year's BOC Covent Garden festival. The Bernstein evening, starring Sally Burgess, takes place next Sunday, and Kim Criswell features in the Porter celebration a week later. Both events are at the Palace Theatre.

LUGANO
Valery Gergiev and the Kirov Orchestra begin a tour of Switzerland on Saturday at the Palazzo dei Congressi. The tour, sponsored by Credit Suisse, includes concerts in Basle, Berne and Geneva, but not Zurich. In Montreux, the Kirov ensemble will give a concert performance of Tchaikovsky's *The Queen of Spades*.

CINCINNATI
James Levine, a Cincinnati native, brings the Metropolitan Opera Orchestra to the Music Hall on Wednesday to open the 125th anniversary Cincinnati May festival. In the remaining five programmes, the festival's music director has juxtaposed works performed at the first festival with contemporary compositions, including a new choral work by Alvin Singleton.

LIVERPOOL
The Tate Gallery Liverpool re-opens on Saturday after a £27m development scheme to create new galleries and improve facilities for visitors. Among the inaugural displays is an exhibition of the Tate's entire holdings of Cubist art, on show for the first time outside London.

VIENNA
The Staatsoper is mounting a rare production of Meyerbeer's *Le prophète*, starring Placido Domingo. Marcello Viotti conducts a staging by Hans Neuenfels. The first night is on Thursday.

BATH
The eccentric and Euro-centric Clerical Medical Jazz Weekend, part of Bath's wide ranging International Music Festival, opens on Friday. Among the delights are German bassist Eberhard Weber, Dutch improvisers Ernst Reijseger and Han Bennink and London's high stepping horns, Jazz Jamaica.

MOSCOW
American theatre director Robert Wilson (left) makes his Russian debut tonight with his interpretation of the myth of *Persephone*. Originally created for outdoor performance, the play describes the fate of Zeus's daughter, who was abducted by Hades and made queen of the underworld. The venue is the Moscow Arts Theatre.

NEW YORK
The Pierpont Morgan Library has mounted a display of memorabilia to mark the centenary of the death of the mathematician and photographer Charles L. Dodgson (1832-1898; below), better known as Lewis Carroll, the author of *Alice in Wonderland* (original Tenniel illustration left). The exhibition opens on Wednesday and runs until August.

New York City Ballet's season continues at the State Theatre with a Spring gala on Wednesday, featuring an all-Jerome Robbins programme, and a "new generations" programme on Saturday. Just across Lincoln Plaza, at the Metropolitan Opera House, American Ballet Theatre's season has got underway, with *Giselle* programmed for this week.

Slice-of-life realism: Louise Goodall and Peter Mullan in Ken Loach's best film for years, 'My Name is Joe'

Passion, outcasts and off-the-wall surrealism

Nigel Andrews reports on the highlights of the first week of Cannes

The Italian connection is strong at Cannes this year. Martin Scorsese heads the jury; John Travolta opened the main programme with the Clinton-based satirical drama *Primary Colours*, showing out of competition; and Mimmo Calopresti directed the first film in the 30th-anniversary Quinzaine des Realisateurs, a tale of agony, ecstasy and identity crisis called *The Word Love Exists*.

The message is clear. Passion, emotional and intellectual, is what we are in for. And to prove it, the first two Golden Palm-competing movies were Colombia's *The Rose Seller*, in which the tragic youth of Medellin run about the streets weeping, loving, speechifying and railing against poverty, and France's *Ceux Qui M'Aiment Prendront Le Train*, in which the human population of filmmaker Patrice Chereau's head run about a train weeping, loving, speechifying . . .

Neither film quite hits the mark and Chereau's, shaped as a memory-besieged rail journey, plays like an erratic Dennis Potter pastiche. But at least the *energy* level is there for a festival that boasts new films from Boorman, Gilliam, Imamura, Nanni Moretti and others and also promises a bizarre obsession with outcasts and outlaws.

Boorman's *The General*, made in black-and-white, is like a Francesco Rosi film set in Dublin. A real-life anarchic hero, the late super-criminal Martin Cahill, pits himself against every authority group from the police to the IRA while carving lawless patterns across the land and/or the bodies of his enemies. Boorman doesn't quite make this caustic tragicomedy work, even with Brendan Gleeson's mercurial, bully-boy lead performance. But it is his most defiantly oddball film in years: more when it opens in European cinemas next week.

The other British veteran in competition is Ken Loach. *My Name Is Joe* is his best film in years, so lithe and gymnastic in its naturalism that it jumps with ease into the thriller narrative that develops late on. Joe (Peter Mullan) is a jobless ex-alcoholic with a semi-criminal past. He endangers his romance with a high-principled social worker (Louise Goodall) by taking "one last job" to bail out a gang-menaced friend.

It goes horribly wrong – we know it couldn't go right – but even then Loach doesn't leave the story with a trite finish, either doomy or upbeat. The film has jangled so many nerves, emotional and social-political, that the audience is left moved and chastened, nervously pondering a society that even at its most well-meaning cannot paper over the cracks caused by poverty and opportunist crime. Paul Laverty's script is light years ahead of his last effort for Loach, *Carla's Song*. A fine cast of unknowns does justice to a film whose climactic emotional power shows how much more than a mere slice-of-life specialist Loach is.

Three off-the-wall American movies have been the other early highlight of the festival. Jake Kasdan's *Zero Effect* is a detective story written as if by Kafka and Borges time-machined to modern L.A. Take an agoraphobic gumshoe (Bill Pullman), a tycoon with a secret (Ryan O'Neal) and a *fille fatale* with an even bigger secret (Kim Dickens) and then lavish teasing, literate dialogue on them. The film is slow, stylish, witty, hypnotic.

So is Paul Auster's *Lulu On The Bridge*: too slow for some critics who cried "Catatonia!" of the romance between Harvey Keitel, as a saxophonist given a second life after catching a bullet in the chest, and Mira Sorvino as the mystery muse-cum-angel he meets. Is it real? Is it a dream? Is it a fable? Bits of all three really. But the writer-turned-filmmaker has a lovely feel for suspended time and upended expectation. This is world of magical epiphanies and encounters, where stones can levitate, life can be rewound, and even an average dinner party will feature Vanessa Redgrave as a peroxide-wigged avant-garde stage producer plus Mandy Patinkin telling the most surreal airline story ever heard.

Surrealism, of course, is a delicate flower. Treat it roughly and it sheds leaves and petals all over the screen. Terry Gilliam's *Fear And Loathing In Las Vegas* is two hours of free-form vandalism carried out on Hunter S. Thompson's eloquently stoned testament to the 1960s. Johnny Depp camps it up with a will, if not exactly a wit, as the Thompson-based hero, complete with floppy solar topee, marijuana cigarette-holder and a bandy-legged zigzag walk that suggests a substance-abusing Groucho Marx.

Johnny Depp camps it up with a will, if not exactly a wit, with a solar topee, a marijuana cigarette-holder and a bandy-legged zig-zag walk that suggests a substance-abusing Groucho Marx

Depp's picturesque energy cannot ward off monotony. Where Thompson's word-play was funny, febrile and inventive, Gilliam's camera-play is all frantic excess. From the hotel lobby where human faces morph into primeval animal heads to the endless coloured filters, tilted angles and fish-eye close-ups, we feel like people condemned to live out a "bad trip" right there in the movie auditorium.

There is more scandalous content promised for the festival's second week, though from the surer artistic hands of Lars *Breaking The Waves* Von Trier. His sexually explicit film *Idiots* has already caused censorship convulsions in his native Denmark but will probably be greeted here with the usual sober critical response: just 2000 journalists trampling over each other for best-view seats in this lively, annual Gomorrah-on-the-Med.

A leap in the dark

Glyndebourne is going through a period of change, writes **Andrew Clark**

On Thursday afternoon, black-tied opera-goers will follow a well-worn path to the Sussex Downs for the opening of the Glyndebourne season. They will picnic, quaff champagne and laugh politely at the romantic twists of *Cosi fan tutte*. Few will be aware that Glyndebourne is plunging into a period of upheaval and uncertainty.

Over the next 18 months, virtually all key executive posts, including Sir George Christie's chairmanship, will pass to new faces. For an organisation which prides itself on steady evolution, the changes represent a leap in the dark. They will not only point Glyndebourne in new directions of style and repertoire, testing its relationship with its audience; they will also determine whether the festival can adapt to the changing demands of the opera business.

At the end of the summer, Nicholas Snowman – currently chief executive of London's South Bank Centre – will succeed Anthony Whitworth-Jones as Glyndebourne's general director. By next season the festival will announce Andrew Davis's successor as music director. The new appointments will probably lead to a loosening of ties with Graham Vick, who has been director of productions since 1993. Glyndebourne has long prided itself on its artistic partnerships, from Fritz Busch and Carl Ebert in the 1930s to Davis and Vick in the 1990s. Finding replacements will be Snowman's first hurdle.

But the most significant change is Sir George's decision to hand over control to his son Gus at the end of 1999. Sir George, 63, will continue to live at Glyndebourne, and wants to retain close links with the festival "without intrusion on my successor". The question is how much power Gus will want, and whether he can exert it as subtly as Sir George.

In the public eye, Glyndebourne's artistic success has always depended on the Christies' ability to attract the right personnel, and let them get on with it. Under Sir John Christie, the founder, that may well have been the case. But as Sir George gained experience and the festival grew in size, Glyndebourne has developed into a proper family business.

No decision – from choice of repertoire to the casting of parts – is taken without Sir George's tacit approval. Only a man of his charm could have persuaded corporate donors to part with £33m for a rebuild of what is essentially the Christies' private theatre. It was he who masterminded the public relations campaign when it opened in 1994 – blinding everyone to the fact that the acoustic is far from wonderful and backstage facilities pose many of the old problems. And it is Sir George's taste which continues to govern repertoire.

Thanks to Sir George's influence, Glyndebourne remains a paternalistic organisation, in which staff behave like old family retainers and singers feel they are part of an 18th century court theatre. This is not an atmosphere which encourages independent management; hence the pattern of recruiting executives from within the Christies' circle. Sir George's association with Whitworth-Jones and Snowman dates back to the early 1970s, when both managed the London Sinfonietta under his chairmanship. Whitworth-Jones ran Glyndebourne's touring branch before assuming the top job; Snowman had worked at Glyndebourne in the 1960s.

The disadvantage of such networking is that it encourages deference to the Christies. By the same token, it gives Glyndebourne a system of checks and balances, enabling it to avoid extremes of taste and, more importantly, to keep in touch with its audience.

Over the next 18 months virtually all key executive posts, including Sir George Christie's chairmanship, will pass to new faces

The partnership of Snowman and Gus Christie is certain to change the balance of power, at least initially. Snowman meets the family's need for a trusted manager to guide its confident but inexperienced scion through his early years. Snowman, 54, is likely to be a more opinionated policy-maker than Whitworth-Jones. Echoing Sir George's 1962 manifesto for "modern works and neglected masterpieces", he is keen to programme *Oberon*, *Broucek*, Busoni, baroque and French repertoire. Apart from an already-planned *Fidelio*, the 2001 season will be the first to bear Snowman's stamp.

Gus, the Christies' 34-year old second son, has been a member of the board for two years. He has served brief apprenticeships at the Bastille, the Royal Opera House and Tricycle Theatre, and spent four months filling in as Glyndebourne's finance director. Sir George's wish is that Gus should eventually take over as general director. "It would save a bob or two," says Sir George laconically. "He hasn't had the opportunity to rebuild, as I had. He might as well manage."

The changes in Glyndebourne's executive line-up may be of little concern to the festival's 5,500 ordinary members, but they will be studied with interest by the 600 founder-subscribers, some of whom contributed £150,000 to the rebuild in return for a guaranteed block of seats each season. It cannot have escaped their notice that Glyndebourne has had to take out newspaper adverts to sell performances of *Katya Kabanova* – a sign that, even with a 30-year membership waiting list, festival audiences still baulk at the prospect of Janaček.

Sir George acknowledges "a duty to go down a route that our founder members feel reasonably familiar with". Therein lies one of the unresolved tensions stemming from the rebuild. With tickets priced as low as £10, the new theatre opened the festival to a wider social mix of opera-goer; all 3,200 standing places for this summer's festival were sold within hours.

That suggests a pull towards more modern repertoire, a more informal style – the opposite of what founder members believed they were paying for. In the eyes of many of Glyndebourne's traditional audience, dressing-up and picnicking by the ha-ha are still the most important part of the experience. This tension between different types of audience suggests the Christies did not take full account of the consequences of a bigger theatre.

The challenge to maintain equilibrium will be just as great backstage. Glyndebourne is not a good payer: this year's top fee is £1,900, a quarter of what a soprano like Amanda Roocroft, singing Katya, could expect at Covent Garden. Stars like Kiri te Kanawa and Anja Silja can afford the drop in fee for the benefit of a "jolly-up" on the Sussex Downs. But if the international opera business recovers from its current recession, established singers may not want to sit around at Glyndebourne all summer when they could be earning more for three weeks' work elsewhere.

The 1998 Glyndebourne line-up, however, with a cast of fresh young voices in *Cosi* and Andreas Scholl in Handel's *Rodelinda*, bears the hallmark of a good vintage. Next season promises *The Bartered Bride* produced by Nikolaus Lehnhoff and conducted by Jiří Kout, a Richard Jones staging of Jonathan Dove's new opera, and *Pelléas et Mélisande* from Vick and Davis – whose grand finale will be *Figaro* and *Don Giovanni* in 2000.

INTERNATIONAL Arts Guide

BATH

EXHIBITION
American Museum
Tel: 44-1225-460 503
Shaker: The Art of Craftsmanship. Furniture and decorative arts from the Shaker community at Mount Lebanon. Previously seen at the Barbican, London, the show traces the history of the Shaker movement from its origins in late 18th century England, through its development in 19th century America; to Oct 25

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
● Berlin Philharmonic Orchestra: conducted by Emmanuel Krivine in works by Beethoven and Tchaikovsky; May 18, 19
● Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Bartók and Brahms. With soloist András Schiff; May 23

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
The Iberians: display of 350 objects made, between the sixth and the first century BC, by a little-known civilisation that existed on the west of the Mediterranean bowl, between Andalucia and Languedoc. Some of these objects have never before been removed before from the sites of their excavation. Others have been loaned by Spanish and French museums; to Aug 23

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
● Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company, at the Lunatheater; May 19, 20, 22
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Aeschlimann; May 19, 20, 21, 22, 23

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Franz Welser-Möst in works by Brahms and Shostakovich. With piano soloist André Watts; May 19
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 3 and 4; May 22, 23

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETI-Teatro della Pergola; May 21, 23

GENEVA

CONCERT
Victoria Hall
Tel: 41-22-3170017
Orchestre de la Suisse Romande: conducted by Edmon Colomer in works by Turina, Ravel and Falla. With piano soloist Alicia de Larrocha; May 20

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg; May 21, 23

LONDON

CONCERT
Royal Festival Hall
Tel: 44-171-960 4242
The Royal Opera: Die ägyptische Helena, by Strauss. Concert performance, conducted by Christian Thielemann. Cast includes Deborah Voigt and Thomas Moser; May 22

LOS ANGELES

CONCERT
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts a programme of works by Rameau, Haydn and Beethoven; May 20

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier'Alli, with a cast including Kim Begley and Nancy Gustafson; May 19

MOSCOW

THEATRE
Moscow Arts Theatre
Tel: 7-095-229 8760
Persephone: director Robert Wilson makes his Russian debut with this production, originally created for outdoor performance, about Zeus's daughter, who was abducted by Hades and made queen of the underworld; from today to May 23

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; May 18, 22

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
● New York Philharmonic: conducted by James Conlon in works by Rachmaninov and Liszt. With piano soloist Garrick Ohlsson; Avery Fisher Hall; May 19
● New York Philharmonic: conducted by Kurt Masur in Shostakovich's Symphony No. 7, "Leningrad"; Avery Fisher Hall; May 21, 22, 23

EXHIBITIONS
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Alvar Aalto: Between Humanism and Materialism. Centenary tribute to the Finnish architect, designer and town planner. Includes sketches, drawings, models and photographs, many of them loaned by private collections in Europe; ends tomorrow

OSAKA

EXHIBITION
The Museum of Art, Kintetsu
Tel: 81-6-624 1111
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. The exhibition marks the centenary of his tragically early death, aged 25, and will arrive in London in October, after touring in Japan; to Jun 8

PARIS

CONCERT
Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre National de France: conducted by Vassili Sinaisky in works by Haydn, Saint-Saëns and Beethoven. With cello soloist Han Na Chang; May 19

ROTTERDAM

EXHIBITION
Kunsthal
Tel: 31-10-440 0300
Look at me: Fashion and Photography in Britain, 1960 to the present. First stop for a touring exhibition which tracks the development of fashion photography, with its emphasis firmly on popular culture rather than haute couture; to Aug 9

SAN FRANCISCO

CONCERT
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
The Met Orchestra: conducted by James Levine in works by Rossini, Tchaikovsky, Tan Dun and Ravel. With violin soloist Maxim Vengerov; May 18

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Cleveland Orchestra: conducted by Dohnányi in works by Ives, Mozart and Brahms; May 20
● London Symphony Orchestra: conducted by Sir Colin Davis in works by Mendelssohn and Elgar; May 19

VENICE

EXHIBITION
Palazzo Grassi
Tel: 39-41-523 1680
www.palazzograssi.it
Picasso: 1917-1924. Beginning with works inspired by his designs for the theatre and the Commedia dell'Arte, this display also picks up the return to classicism which coincided with Picasso's first visit to Italy in 1917; to Jun 28

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*...
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PERSONAL VIEW DEEPAK LAL

Hypocrisy and the bomb

India's nuclear tests have shown the weakness of the west's non-proliferation policy

The series of nuclear tests carried out by India has demonstrated the illogicality underlying the western policy on non-proliferation.

They have led to the absurd spectacle of British politicians condemning India for acquiring a deterrent they themselves possess. At the same time, the US has imposed sanctions against a democratic Asian state – which has strategic interests arguably coterminous with its own – while helping its potential communist enemy in the region, China, with the export of missile technology.

Nehru: wrongly discounted any threat from the Chinese UPP

It is important to realise that the relevance of the Indian bomb to Pakistan – the issue that has dominated discussion – is a complete red herring. As the recent undiplomatic statements by the Indian defence minister have emphasised, the real strategic threat that India perceives is from China.

To the extent that Pakistan enters the picture, it is as a surrogate or partner in this threat. For on its own, as Pakistan itself realises, the balance of forces is so predominantly in India's favour that in any conflict Pakistan would stand no chance.

But is the perceived Chinese threat absurd, as a leader in the Financial Times claimed? That is the central question in forming a judgment on the Indian decision to become a "fully fledged" rather than a "threshold" nuclear power.

Historically, China has not been an expansionary power, and has, at worst, sought to assert control over what it considers to be its historical frontiers. This historical judgment, plus the geographical shield provided by the Himalayas, persuaded Nehru, India's prime minister from 1947-1964, to discount any Chinese threat to Indian security. Yet the traumatic invasion of 1962 took place. The Chinese motives for this attack remain obscure, but no Indian politician can forget it.

What is there to ensure it will not happen again? Clearly, the two decades of what was subsequently perceived by many as Nehru's appeasement of the Chinese did not prevent the conflict. The continuing border dispute, though recently muted, remains a running sore affecting relations between the two countries.

Add to these worries the following: Indian claims of Chinese missiles in Tibet aimed at India; a growing attempt by the Chinese to extend their naval reach in the Bay of Bengal through arrangements with the Burmese junta; and the announcement during the past year of a significant upgrading of Chinese missiles. One does not have to be too paranoid to look towards the north from the sub-continent with trepidation and to search for some deterrent. India hopes to provide some deterrence by signalling its intention to become a fully-fledged nuclear power.

I am aware of the continuous and essentially circular argument among defence experts about the strategic and tactical usefulness of nuclear weapons. But as Professor Lawrence Freedman concluded on the cold war debate about nuclear deterrence: "What we do know is that since 1945 Europe has been at peace. This underlies the point that nuclear deterrence may be a viable policy even if it is not credible . . . The Emperor deterrence may have no clothes, but he is still Emperor."

Why should this not apply to the triangular relationship between India, China and its "ally" in the subcontinent, Pakistan? It would be extreme hypocrisy for European governments that rejected the Campaign for Nuclear Disarmament's arguments to punish India with sanctions for adopting a similar stance.

From the strategic perspective, the US's condemnation of India and its imposition of sanctions seem bizarre.

Suppose for the sake of argument that the Indians are wrong in their perception of a Chinese threat to their security, what then is the purpose of the recent Chinese military build-up and desire to develop sophisticated missiles?

The threat to China from the former Soviet Union must have diminished with its break-up. India is clearly not a threat, nor other neighbours. The only answer is that the Chinese are seeking to find a strategic deterrent against the US – a presumption that is strengthened by the continuing stand-off in the Taiwan Straits.

If the strategic interests of China and the US are so clearly at odds, it would seem bizarre to penalise the one country in the region that might provide a strategic counterweight.

The US sanctions, being mandatory, were probably unavoidable, though the Indians rightly question why exceptions are made by the White House in the case of China, despite congressional laws regarding human rights that require sanctions. India is, after all, the only flourishing democracy in the region and to penalise it while turning a blind eye towards the behaviour of an authoritarian, potential strategic rival, seems illogical.

The reason, of course, is the attempt to save the flawed non-proliferation regime, of which the comprehensive test ban treaty is the most egregious. It has hopefully been killed by the Indian blasts.

The distinction between "threshold" and "acknowledged" nuclear states was always artificial. As the west has demonstrated by its own actions, national security realpolitik rightly takes precedence over political correctness. The countries that have chosen to give up their nuclear weapons – South Africa, for example – or chosen not to develop them, have done so because of their own calculations of costs and benefits, and not because of the norms established by the non-proliferation treaty.

The legitimate concern of the non-proliferation regimes is preventing the acquisition of weapons of mass destruction by "rogue states". But none of the threshold states – India, Israel and Pakistan – are any more "rogue" than the established nuclear states (including China). The problem of "rogue states" should be dealt with directly rather than by the illogical non-proliferation regime.

The author is James S Coleman professor of international development studies, University of California, Los Angeles.

LETTERS TO THE EDITOR

Germany has mountain to climb to reverse structural unemployment

From Dr Jens Bastian.

Sir, Your interview with Gerhard Schröder ("Germany's moderniser", May 11) highlights the need for a "new consensus" on labour market policies in Germany. A country which has more than 4.4m people out of work (April 1998 data), with unemployment levels reaching 20 per cent in eastern Germany, needs new jobs as much as it requires comprehensive reform of tax regulations and labour legislation. The proposed *Alliance for Jobs* constitutes part of such an endeavour. It is more than trade unionists sitting with government representatives and employer associations "over sandwiches and beer", brokering deals in smoke-filled backrooms.

Schröder's proposal seeks to revive an idea that briefly caught the imagination of decision makers in 1996 when Germany's IG Metal union proposed wage restraint in exchange for job creation commitments from the employers. The proposal had initial backing from Chancellor Kohl, but never materialised because of disagreement over the fine print (for instance reducing overtime work) and lack of commitment from employers' associations who could not guarantee that their member firms would honour the contractual alliance.

The revised *Alliance for Jobs* proposals are not "old wine in new bottles". But in order to make the alliance work, and thus create employment opportunities, a whole range of conditions must come into place. The alliance is conditional on tax reform, curtailing corporate taxation and personal income tax, advancing labour market flexibility in areas such as wage flexibility for those seeking jobs, working time diversification, introducing pension reforms that move away from an exclusive focus on pay-as-you-go systems to capitalisation schemes. The list suggests there is a mountain to climb if the German political economy is to reverse structural unemployment.

Jens Bastian,
lecturer in German political economy,
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The average that sets UK and Japan apart

From Professor Ali M. El-Agraa.

Sir, In your interview with Noriko Hama ("From Office Lady to oracle", May 9-10), she mentioned that, when she returned to the Japanese education system, she failed despite her performance within the UK system and attributed this to the "state of British education". I presume she returned to Japan at the school level when she must have had to attend a "special school/class" for returnees to be reintroduced to the system.

It is well known that most returnees do not perform well, but for reasons more to do with conformity than actual performance. She could not have returned at the university level since, on the whole, Japanese undergraduates do not learn much academically – university simply provides a breathing space from "the examination hell" before joining the demanding life of the "salaryman".

That apart, Hama is merely voicing a deeply-ingrained misconception: a *higher average* in basic education means that every Japanese rates higher than the foreign (overseas) counterpart. Those familiar with both systems know that those who excel within the British system do so worldwide; what pulls the UK average down is the "non-performance" of the British weak – the deviation from the average is almost zero in the case of Japan.

Ali M. El-Agraa,
visiting professor of economics 1997-98,
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Fare's fair for travellers on this route

From Mr Terry Walker.

Sir, Like Roland Farnsby (Letters, May 9) I flew from London to Edinburgh in early February but returned on the same day. The flight with KLM UK cost £98 return from London City Airport and was booked the previous day. I did telephone EasyJet but was very politely informed that the cheap fares had to be booked in advance - it quoted about £69 single. BA and British Midland quoted about £210 or about £190 standby. Standard class rail would have cost about £160 leaving early morning and returning the same evening. It's true that fare structures are complicated but KLM UK will get my custom next time I travel that route.

Terry Walker,
PO Box 22602,
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Saudi Arabia

Accusations made in bank court case unfounded

From Mr Michael G. Marsh.

Sir, I wish to protest most strongly at the accusations reported in your article, "UBS arm fined $5m over currency deals" (May 9-10), made against me by Adv. Binnington on behalf of Cantrade bank in the Jersey courts on May 8. The accusations are unfounded, most damaging to my reputation, and have been made under the cloak of "absolute privilege" of the Jersey courts.

Unfortunately, I have been given no opportunity to respond to the serious allegations quoted in your newspaper, made by the legal representative of a bank which itself has pleaded guilty to criminal charges and has been sentenced. Therefore, please allow me space to say that, unlike Adv. Binnington's client and Robert Young, I have never been charged with any offence, nor was I called as a witness in the criminal proceedings against Cantrade or Robert Young.

I wish vehemently to say that there is no truth whatsoever to Adv. Binnington's statements concerning my involvement in the "corrupt arrangements" he said had taken place between an officer of Cantrade and the convicted trader Robert Young.

I am an injured party and a plaintiff in the civil proceedings taking place in Jersey against Cantrade et al, and I am a plaintiff in the RICO racketeering proceedings taking place in New York against Union Bank of Switzerland, Cantrade et al.

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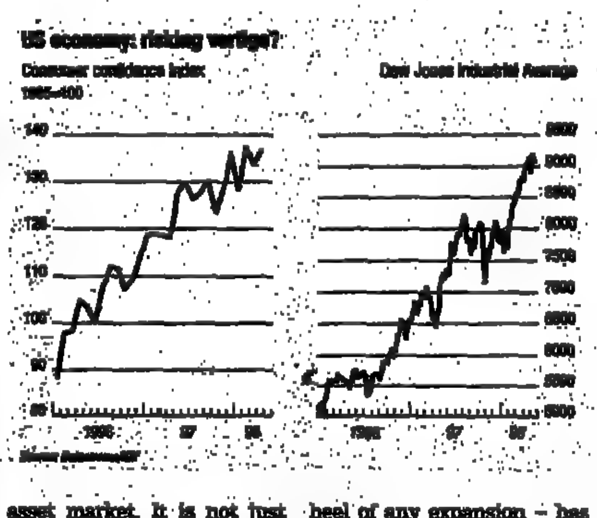
ECONOMICS NOTEBOOK GERARD BAKER

Unusual danger signs

Wall Street's strength is prompting calls for a US interest rate rise, but is it too late?

Tomorrow the 12 voting members of the Federal Reserve's monetary policymaking open market committee will gather for their third meeting of the year. They do so as a rising chorus of economists is warning that the US economy is in greater inflationary peril than it has been since the present upswing began more than seven years ago.

The danger signs are not in the familiar places – consumer price inflation is dwindling gradually to zero; wholesale prices have been falling on and off for most of the last year – but in the remarkable run-up in asset prices or, to be precise, in the stock market, where prices have risen by 25 per cent in the past 18 months.



Investors seem to have ignored profit warnings, worries about Asia and traditional common sense and pushed valuations up to levels that all but the most bovine of stockbrokers believe are unsustainable. As a result, some observers say the Fed's policymakers now need to abandon their long-established coyness about the stock market and raise interest rates to deflate the bubble before it explodes over the US economy.

But should the Fed target the stock market as an explicit goal of monetary policy?

Proponents of such a shift say look no further than the Japanese economy to understand the wisdom of a policy directed at over-inflated asset prices. The Bank of Japan allowed asset prices to rise to impossible levels in the late 1980s. Its eye was firmly and, as it proved, wrongly fixed on the performance of prices in real product, service and labour markets (as well as on the money supply) – where inflation was largely absent.

By the time the central bank realised the danger and tightened policy, it was too late, and the economy crashed with the market. Japan is still suffering the effects of that failure with a precariously weak financial system that is preventing a full recovery of the economy.

The Japanese experience highlights the two principal concerns raised by a soaring asset market. It is not just that, eventually, the market will fall, damaging the economy. Before that happens, there is the risk that higher prices feed through into buoyant consumer and corporate confidence – prompting individuals and companies to borrow on the strength of a rising market. Consumers feel wealthy enough to get deep into debt to buy fast cars and expensive holidays, while companies borrow to open expensive new plant or buy other companies.

It is important to remember that, in the Japanese case, the principal problem was rising property prices, less so share prices, and Japanese consumer and corporate spending did indeed rise sharply between 1985 and 1990.

There are some signs that the same spending surge is under way in the US. Consumer confidence is at a 30-year high; and spending is robust. The current dual enthusiasms among companies for information technology-related investment and for buying other companies is a sign that some questionable decisions are going unchallenged.

But debt – the Achilles heel of any expansion – has still not exploded at anything like the levels recorded in Japan in the late 1980s, either at the individual or the corporate level.

For example, individual instalment debt has, it is true, reached an all-time high at more than 20 per cent of income. But the bulk of that debt is accounted for by increased credit card use – where debts are paid off each month, and is not "pure" debt.

Curiously enough, this benign behaviour of debt could be a stronger case for the Fed to act now. If the stock market fell over the next year by about 10-15 per cent, the relatively low levels of debt might ensure that the overall economic impact of a fall in equity prices would not be so great. Few would doubt that it was the size of the Japanese debt problem, rather than the fall in asset prices *per se*, that has caused today's mess.

If the Fed could engineer such a smart move with debt still under control, it might be able to avoid a repeat of the Japanese experience.

But here is the problem: how does the central bank, even assuming it believes share prices to be 10-15 per cent too high, bring about a correction?

Raising interest rates to bring down equity prices is like using an iceberg. The ship's progress is stopped, but at some cost to passengers and crew

Raising interest rates to avert inflationary pressures in the real economy is a slow process. It has been compared with turning a vast ship around at sea. Raising interest rates to bring down equity prices is like using an iceberg. The ship's progress is stopped, but at some cost to the passengers and crew.

The effects of a policy targeted towards equity prices could be greater than the underlying problem. Worse still, should a sharp fall in stock prices occur, the Fed would have to go into reverse gear, dramatically easing policy. This is what it did after the 1987 stock market fall, an event that messed up the monetary policy framework for several years afterwards.

That is why the Fed has been so reluctant to back up its cautionary words about the stock market with action.

But all the talk about a Fed move to pull down the stock market by a few hundred points may soon prove jejune.

At some stage, it seems almost inevitable that Alan Greenspan and his colleagues will have to raise interest rates in any case. Not because of the stock market, but because of the strength of the overall economy. Stretched labour markets – an unemployment rate of just 4.3 per cent – are clearly putting renewed upward pressure on wages.

Even more troubling, the productivity improvements of the past two years – which had until now enabled companies to pay higher wages without putting up prices – may have dried up. Figures published this month for the non-farm business sector showed overall productivity up by just 0.2 per cent in the first three months of the year, while unit costs rose 2.2 per cent.

Unless the chill winds still blowing from Asia significantly cool the torrid US economy in the next few months, the Fed has indicated it will have to pour some cold water on it.

Only then, when the stock market reacts, will it become clear whether or not the central bank has acted too late.

FINANCIAL TIMES
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Monday May 18 1998

Time for change in Indonesia

The calm that returned to the streets of Jakarta over the weekend marks a respite, not an end to the crisis that threatens President Suharto. Indonesia still seems a nation headed for disaster, and the ineffectual response of the Birmingham summit has done little to help.

Leaders ducked the opportunity to encourage him to make an orderly exit before the damage grows even worse. Their reluctance is understandable. The lack of a successor means there is a risk of even greater chaos without Mr Suharto.

Yet much is at stake. Because of its position straddling shipping lanes vital to world trade and energy supplies, Indonesia matters to global security. Because of its $136bn foreign debt, it matters to world finance. Its 200m people are the world's fourth-largest population, and in riots and demonstrations across the country they have left the world in no doubt that they want their ageing dictator to leave. The world cannot afford for Indonesia to flounder in anarchy, hunger and violence.

That is undoubtedly what faces Indonesia now. The International Monetary Fund rescue programme, which was supposed to be the cornerstone of efforts to restore confidence, is shot to pieces. Even under the best of circumstances it will take years for Indonesia to recover from the panic exodus not only of money but of expatriate personnel as well as local Chinese who form the backbone of the economy.

Trust is at a nadir. It clearly cannot be rebuilt while Mr Suharto remains in office. He may have bought himself some time by returning from Cairo just as the riots were playing themselves out and appearing to restore order. But violence will almost certainly flare up again. Vague promises of reform and cabinet reshuffles will not restore investment flows or reverse the tide of popular revulsion for him and his family.

The real question is how to manage the transition. The ambivalence of the army towards the looting has weakened the standing both of the military and its leader, the moderate General Wiranto. The process of finding a new president may now become all the harder. The first priority must lie in establishing an orderly transitional arrangement. There has been talk of a coalition council that could oversee the selection process. Promise of real reform would calm the popular mood, and such a line deserves strong international support.

There can be no illusion that this course is easy. Indonesia has no natural sense of unity. There are strong rivalries in the opposition and few natural leaders. Initial attempts to form a transition council have already proved difficult. Indonesia is in severe danger of becoming the world's largest basket case. Only if they can summon up the discipline to search calmly for a new leader is there a chance of pulling back from that brink. It is clear after last week that there is absolutely no long-term prospect of recovery if Mr Suharto remains in office. True friends of Indonesia cannot pretend otherwise.

Japan's rates

With Japan's official discount rate at a paltry 0.5 per cent, discussion of a rate cut might appear academic when the policy board of the newly independent Bank of Japan meets on Tuesday. With an economy on the brink of recession, a case can be made for a cut in the nominal rate.

Yet Japan being Japan, the loudest plea in the public debate, which comes from the politicians, is not for a cut but an increase.

The politicians are keen on an increase because it would boost the income of Japan's savers. As well as winning votes, this could boost flagging consumption. Others argue that it would help to boost the yen.

The debate is hotting up. But, in fact, these arguments miss the point. The challenge for Japan's policy-makers is to give an inflationary boost to an economy in the grip of disinflation. An expectation of rising prices would induce consumers to bring their money out from under the mattresses and start spending. The question is how to achieve this.

Low interest rates alone will not help. Japan's banks are still fragile and are reluctant to lend whatever the interest rate. If the Bank of Japan wishes to run an expansionary monetary policy, it will have to inject money into the economy itself. This means very large-scale purchases of assets, including bonds and equities, from the private sector.

Of course, this strategy would also exert a powerful downward influence on the yen. A much more expansionary fiscal policy, desirable in itself, would offset this, but is not yet in prospect. A falling yen – and a rising external surplus – may simply be the price the world has to pay for recovery in Japan.

Golden jubilee

The multilateral trade system, which marks its 50th anniversary this week, is one of the most remarkable creations of the post-war era. By sweeping away protectionist barriers, it has contributed immeasurably to international prosperity and stability, paving the way for a more open and integrated global economy.

Government leaders and ministers have every reason to celebrate those achievements at the World Trade Organisation meeting which opens in Geneva today. But entrenching the gains of the past half century requires clear objectives for the future.

The biggest danger lies in asking the WTO to do too much. It is already committed to negotiations soon on agriculture and services, which may blossom into a trade round.

Other tasks include investment and competition policy, and dealing with environmental and labour standards. All these matters are conceptually complex. Most are politically contentious. None will be easily resolved.

The pressures to expand the WTO's agenda reflect its increasingly central importance as a forum for global economic management. But it cannot be expected to resolve every issue of concern to its members – particularly if they continue to limit its budget and resources to niggardly levels. Unless governments agree realistic priorities, the system may become overloaded and its effectiveness impaired.

What should those priorities be? One is to concentrate on targets that can yield the biggest economic gains in relation to the effort needed to achieve them. Freeing farm trade is clearly one.

Above all, the WTO's central mission must remain the removal of market barriers. Attempts to embroil it in environmental and labour rights issues often seem aimed at restricting, not liberalising, trade.

The US and some other countries say the WTO must respond to concerns about such issues if free trade is to command popular support. However, the main reason environmental and labour lobbyists are pressing their case so hard in the WTO is that other forums have failed to deal with it adequately. The answer must be to create institutions better equipped to deal with such demands – not to confuse them with trade policy.

That is not to deny that the general public has a right to know more about how and why trade policy decisions are reached. The WTO needs to do more to make its activities transparent and explain them to the outside world.

But governments must take prime responsibility for sustaining public support for trade liberalisation. They will not succeed by appeasing protectionist lobbies, whatever their guise. Instead, they must persuade electorates that liberalisation is in their interest. Bill Clinton's failure to do so was the main reason for his inability to win fast track renewal last year. That should be a warning to leaders elsewhere. Unless they make the case for free trade more boldly, they risk surrendering the high ground to its opponents and inciting resistance to globalisation.

They do not lack for arguments. These will, doubtless, be eloquently expressed in Geneva this week. But if the multilateral system is to prosper in the new millennium, political leaders must do more than pay lip service to high ideals while abroad. They must ensure they are lived up to at home.

Aim for bourse without borders

Europe is upstaging Wall Street, and the euro offers investors hope for even more vigour, says Barry Riley

Shares on Wall Street may have been gliding ever upwards, but recently European ones have been doing even better. So far this year, the index for Europe excluding the UK is up 28 per cent in dollar terms – nearly twice Wall Street's gain. This sparkling performance has focused renewed attention on the potential of the historically unexciting Continental European bourses.

Hopes are high that the euro will provide the trigger for a revitalisation of the Continent's fragmented capital markets. At the very least, the single currency will lead to a profound shake-up in the operations of stock exchanges and financial institutions.

"A broker's life will change more over the next two years than at any time in the past," says Mark Brown, strategist at ABN Amro. And Jan Mantel, chief investment officer for Europe at Dresdner RCM Global Investors, says funds across Europe will be forced to rebalance and reorientate their portfolios. "It will be the mother of all programme trades," he promises.

Potentially, there is more. At best, the European corporate sector could be modernised and liberated from the shackles of nationalism and political interference. The biggest prizes could go to Europe's corporate giants, which have already seen their share prices multiply under the impact of global investment flows – much of it from the US. This sector of leviathans is also being expanded through the wave of Continental European privatisations. Consider the example of Germany's Daimler-Benz. Until only a few years ago, it was a near-basket case of muddled flag-carrying and industrial conglomeration. But now it has been reinvented as a shareholder-friendly multinational sufficiently self-confident to launch, as the dominant partner, a merger with America's Chrysler.

But what about the medium-sized and smaller company sectors? Germany's *Mittelstand* of privately-held companies, for instance, has traditionally been a vital part of the country's economic strength. More German companies are going public than in the past, but across Europe the smaller companies are of comparatively little interest to international investors.

Thus a two-tier European corporate economy seems to be developing. Some 200 to 300 big corporations are likely to make up the pan-European market. For the foreseeable future the smaller company sectors are likely to remain primarily local and domestic – although exchanges such as the Brussels-based Easdaq are attempting to develop a Europe-wide new company market in the more glamorous and international sectors, notably technology.

The separation between international and domestic was on display in the UK last year when the FTSE 100 Index, packed with multinational blue chips, returned a growth rate of 29 per cent while the corresponding 250 Index of middle-ranking stocks rose only 10 per cent. The shift wrong-footed many of the big UK investment institutions.

As the big companies grow more international, stock exchanges are becoming aware that the need to carve out a role in the cross-border markets of the future is more pressing than their traditional focus on their domestic empires. For example, co-operation between the Paris and Frankfurt bourses, and their derivatives equivalents, is putting pressure on London, which has dominated international business.

Flagship national equity market indices composed of market leaders, such as the DAX, the CAC 40 and the FTSE 100, face a limited future: some say 10 years, others five. The race is on to design and promote the Europe-wide index to replace them: contenders so far include FTSE's Eurotop series and Dow Jones's Stoxx indices, while Standard & Poor's has a product almost ready for launch.

Which index will flash up on 21st century TV screens across Europe, as a snapshot of the day's stock market progress? We should get an early indication of the winner from the performance of the various new futures and options contracts to which these pan-European indices are being linked.

Meanwhile, the euro poses a direct challenge to Europe's labyrinth of nationalistic controls on investment institutions. Insurance companies and pension funds in many countries have been constrained to invest in domestic assets, rather than foreign ones, and restricted in their ability to hold equities rather than bonds.

But from January 1 next year a much wider choice of assets will become "domestic" for institutions in the 11 countries that will form Euroland. This will immediately open up the bond markets. And it is expected that cross-border demand for equities will increase too, as institutions become more international and governments respond to the demographic pressure for the increased funding of future pensions.

There are worries in Europe that the big winners will be the Americans, who are used to seeing Europe in the round, rather than the Europeans themselves who will continue to be limited by their lack of perspective. Arguments are going on, for instance, about whether Europe should be carved up for investment purposes into euro and non-euro segments, and European Union and non-EU territories.

Companies and investors are likely to emerge as winners – with help from the euro

Does Euroland represent a coherent economic entity? Not necessarily from the global investor's point of view. "Dutch pension funds don't want to exclude Switzerland, with its big pharmaceutical companies," says Mr Mantel of Dresdner RCM. So investors are inventing their own economic geography: they talk about "Pan Europe" (the whole EU, including non-European economic and monetary union members, plus Switzerland and Norway) or even "Extended Pan Europe" (which includes some countries to the east).

Borders are becoming fuzzy. Stock market analysts are currently fascinated by the decline of country and the rise of industrial sector as influences on share prices. A pointed example of this shift came last month when the London-based fund management group Foreign & Colonial decided to wind up its German Investment Trust and merge it into a sister Pan Europe fund.

A Brussels firm, European Benchmarks, says four European stock market sectors can be identified: pharmaceuticals, financials, oils and consumer brands. Others are emerging as national influences fade. But investment banks conducting similar studies have come up with conflicting results: ABN Amro thinks chemicals is the most coherent sector, but Goldman Sachs cannot make the correlations work at all well.

The big investment banks are themselves well ahead with restructuring, even if their strategies vary. ABN Amro executives have just embarked on a global roadshow, emphasising the Dutch-owned institution's resources in 19 European countries. The big US investment banks tend to be more concentrated in London, from where their analysts cover the developing European megastock sector.

Investors, though, are lagging behind. Only a handful of London's big fund management houses have attempted to integrate their UK and European teams. Jeremy Tigue, manager of the giant Foreign & Colonial Investment Trust, a global fund, puts forward the typical wait-and-see argument. "It would be premature to merge the UK and Europe until it is evident whether the UK is going into Emu," he says.

According to Adrian Paine, senior portfolio manager for Europe at American Express Asset Management, US-owned managers have therefore been able to steal a lead in the Pan Europe stakes while rivals squabble about domestic versus the rest of Europe. "It's a fantastic opportunity for us," he says, claiming recent strong performance. "We just focus on the larger stocks where the change is going on." Amex's 320-stock European universe cuts off at a minimum market capitalisation of $2.5bn (£1.5bn).

For European corporates, the surge in share prices promises a reduction in the cost of capital, and the opening up of a euro-denominated bond market will bring important benefits too. But there will also be costs of adaptation to this effective Americanisation of the capital markets.

Much depends on the acceptance by European politicians and company executives of concepts of "shareholder value". US investors have substantial aggregate stakes in the leading Continental markets, and UK institutions have some $250bn invested across the Channel. They are inclined to flex their muscles and insist that companies are run to benefit shareholders – which is still a controversial subject in several European countries where banks and trade unions have been much more important stakeholders.

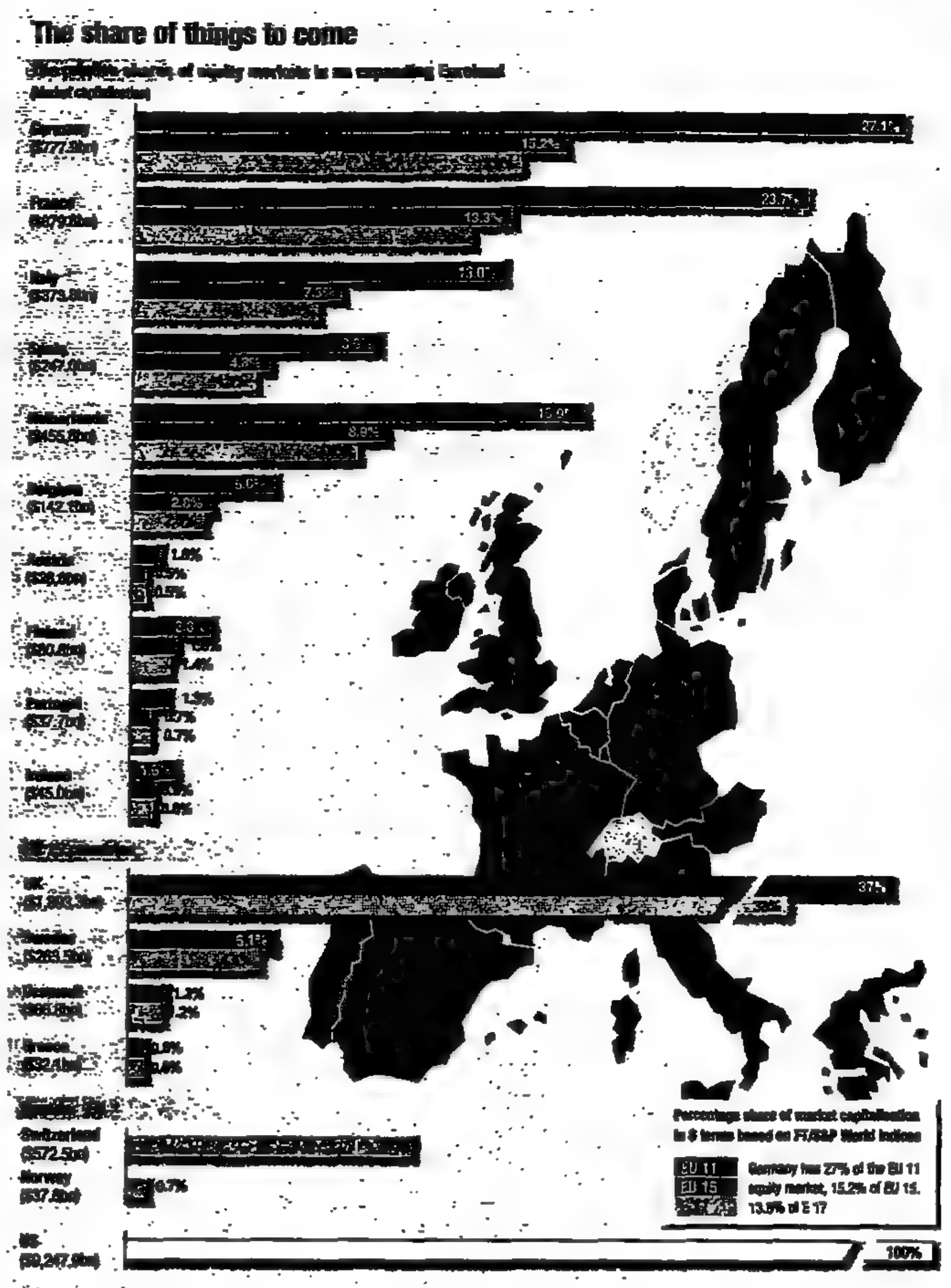
Attitudes to equity buybacks, for instance, still vary, although obstructive German legislation is shortly to be changed. The acceptance of mergers remains patchy: they have become important in Switzerland, but Europe-wide cross-border rationalisation in sectors such as banking or motors, though badly needed, remains noticeable for its near-absence. And defence industry restructuring, plagued by flag carrier considerations, has proceeded at a snail's pace in Europe compared with the US.

But there is scope for progress. American investors, having given up on east Asia, are pinning their hopes on Europe to accept the baton from a tired Wall Street. "Changes in government, corporate and investor behaviour are likely to combine to raise the average valuations in equity markets in Euroland," says Mike Young of Goldman Sachs.

For the time being, though, Europe remains characteristically divided. Half of its stock market capitalisation is outside Euroland. Currency exposure will remain a problem in the UK, Switzerland and elsewhere. French socialism is a significant and obstructive force.

Battles remain to be fought. But when they are engaged, companies and investors are likely to emerge as clear winners – with a little help from the euro.

The share of things to come



OBSERVER

Junior's choice

Time is running out for Luxembourg to appoint the head of its first central bank.

The tiny European state hasn't needed a central bank before as it doesn't have its own money to run – it is in a currency union with big brother Belgium next door. But under the European Union's Maastricht treaty, it has to have a central bank by June 1 if it's going to join in the new single currency.

It appears that prime minister Jean-Claude Juncker faces a dilemma in choosing between two leading candidates for the job.

One is Jean Guill, long-time director of the Institut Monétaire Luxembourgeois – the nearest thing the Grand Duchy has to a central bank – who comes from Juncker's political camp, the Christian Socialists. The other is Yves Mersch, the treasury director much respected in EU financial circles, who is aligned with the Socialists, the other party in the Grand Duchy's ruling coalition.

It's a tough one for Luxembourg's young premier – affectionately nicknamed "Junior" by Germany's Chancellor Helmut Kohl – who has made something of a name for himself as a skilful operator in the EU. If he appoints Guill, he'll be attacked for making a political appointment. If he picks Mersch, some of his party might accuse him of disloyalty.

Observer has a suggestion. One candidate could be appointed with a proviso that he steps down after a few years to let the other take over. On second thoughts, it's such a silly idea nobody would ever agree to it.

Vague sanction

So just what does President Bill Clinton have in mind for sanctions against India? There has been much broad-brush outrage since the nuclear tests, but little detail.

The relevant bit of statute – the Glenn amendment, which is getting its first run out – says the US must terminate bilateral assistance to India, stop credit and guarantees by any government agency, and prohibit US commercial bank loans to the Indian government.

US commercial bankers in India doing business with state-owned enterprises would like to know what that means for them. So would US investment houses acting as lead managers for India's disinvestment programme. The US embassy hasn't been much help, and officials say it will take lawyers in Washington weeks to figure out what the sanctions will actually mean.

Until the fog lifts, the Indians are accusing the US of hyping up the sanctions. The White House says the tests might jeopardise $21bn in aid, grants and loan credits, Indian officials quote $1.4bn – the funds already in the pipeline.

The US does have the grace to admit that it isn't really sure of the figures, noting in a press release that "final numbers will depend on legal determinations as to the precise scope of the sanctions." Whenever that might be.

In the picture

The top cats at Sotheby's and Christie's have been heard to moan into their Moët that the new rich just aren't interested in art – they prefer to waste their wealth on fripperies like horses, houses and yachts.

This may be changing. At New York's sales last week, new money, led by Microsoft co-founder Paul Allen, seemed to be chasing pictures: he was said to be the buyer, for $12m, of a Monet view of Venice. With Wall Street looking a little shakier, Sotheby's and Christie's think more spare cash will be along this autumn.

The last art market boom ended in 1990 with a tremendous crash. Speculators, mainly Japanese, were left with hundreds of surplus paintings some of which, like the Monet, are only now regarded as saleable again.

This time round, the new buyers are taking good advice. Allen is advised by David Nash, former paintings supremo at Sotheby's. Nash's wife Lucy Mitchell-Innes, once Sotheby's contemporary art specialist, was the buyer of the $17.3m Warhol on Thursday on behalf of a private client.

Simon de Pury, who quit as chairman of Sotheby's Europe last year, paid $3.6m on Wednesday for a Bonnard, while James Roundell once of Christie's, ensured that Phillips' first main auction in New York went well by paying $2.7m for another Venetian Monet. Buying with other people's money sure beats trying to sell to Philistines.

Au pair

Most of the Atlantic liners have long since steamed off to the scrapyard, but Liverpool – the depressed port in northern England – has a notion of holding on to a link with New York. It wants to twin with the Big Apple, which is already twinned with Jerusalem. Apparently state governor George Pataki is keen, and an approach has been made to mayor Rudolph Giuliani.

The home of the Beatles claims to be New Yorkers' most requested UK tourism destination after London. There's a strong bond between New York and the Fab Four: John Lennon lived in the Dakota Building overlooking Central Park for several years until his death, and part of the park was renamed Strawberry Fields in his honour.

Last year, Liverpool appointed a tourism ambassador to its old trading partner – and who better than Sid Bernstein, the impresario of the 1969 Woodstock festival. Four years earlier the New Yorker was the first to take the Mersey Marvels across the pond and set up their first US concert in New York's Shea Stadium.

The Financial Times

100 years ago

Coal And The Spanish-American War
In modern warfare, as the events of the past month have proved, it is quite as important for combatants to keep their coal bunkers well filled as to keep their powder dry. The news that came from Sydney yesterday suggests that the United States are apprehensive as to their home supplies of fuel proving inadequate, for in April San Francisco took 27,000 tons of coal from Newcastle, New South Wales, and this month arrangements have been made for the shipment of 150,000 tons. Purchases on so large a scale by a great coal-producing country are by no means without significance, and to the extent to which they benefit Colonial trade they are certainly very welcome.

50 years ago

Canada Trade Protest
The Canadian Exporters' Association has asked Mr. C.D. Howe, Minister for Trade and Commerce, to take steps to stop the "alarming" drop in exports to the British Empire. "Canada's export policy is apparently aimed at building up a United States dollar surplus by directing our exports to hard-currency countries," the Association said.

FINANCIAL TIMES
MONDAY MAY 18 1998

THE LEX COLUMN

Clash of the nerds

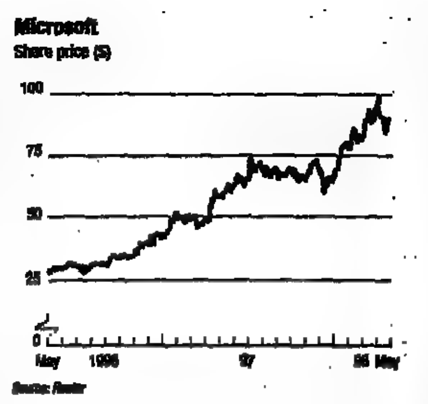
This is the big one. Barring a miraculous reconciliation, Microsoft will wake up *today embroiled* in the *biggest antitrust* case since the break-up of AT&T. Will this also be Wall Street's wake-up call to the risks this legal battle carries for one of its favourite stocks?

So far, Wall Street seems to have shrugged off the threat. After all, Microsoft has had several brushes with the competition authorities and survived them rather well. The company's experiences in court have not obviously slowed down its ability to innovate.

But the US Justice Department's expected antitrust charges have the feel of something altogether more serious. First, *they are being brought by a department* which, under the vigorous hand of Joel *Klein, is emerging as increasingly activist* and confident.

Second, the charges appear to be broader than any faced by Microsoft yet: the company stands accused of abusing its market power.

It is too early to start predicting outcomes. But consider the following risks – first, that fighting the legal battle this time undermines the company's ability to compete. IBM's experience stands as a stark reminder. Second, on a worst case scenario, it could lose, and be forced to operate its applications businesses separately and at arm's length from its operating systems business. This would amount to a virtual break-up of the company. Wall Street should take note.



Mannesmann

For what purports to be basically a capital goods company, Mannesmann is something of a stock market wonder. Its shares have outperformed a sprinting German market by more than 30 per cent since the start of the year. Embarrassingly, however, its stellar performance has less to do with its sluggish automotive and engineering *businesses than its strengths in* mobile telephony and growth prospects in a liberalised European telecommunications market.

On the face of things, Mannesmann is still crying out for more radical treatment. Its engineering business, which is forecast to account for nearly DM17bn or 40 per cent of 1998 sales, has operating *margins of less than 2 per cent.* And the *automotive parts business is only slowly* recovering. Without the telecoms unit's returns to shield behind, these industrial businesses would have trouble attracting capital.

At current share price levels, a full demerger of these divisions would be unlikely to enrich shareholders. But other moves that sharpen up margins should be pursued. *Joint ventures in tubes and now* also in defence – with Krauss-Maffei's *tanks business taking a junior position to* Wegmann, its battlefield taxi partner – are an encouraging start. A complete exit from these low return businesses would be even better. Promising investors a more focused group should give them confidence in signing up to the forthcoming DM3bn capital increase.

European Insurance

Ask a European *insurer what difference* the single currency will make and the answer tends to be: "Not a lot." Insurance is so intimately related to local tax and social security regimes that it will take far more than the euro to harmonise the market, so the argument goes. But the *level of deal-making suggests that the lat*est reduction in national barriers is acting as a catalyst to change. Take Allianz's takeover of AGF, the related Generali/AMB deal, and Axa-UAP's move on Royale Belge: all allow immediate rationalisation of operations in France, Germany and Benelux. The *cost-savings* – played down of course – will help combat intense competition in an over-endowed industry.

But the cross-border deals also show how Europe's largest insurers, approaching saturation presence *domestically*, now regard the euro-zone as their backyard. It *leaves them well placed to develop prod*ucts that will eventually be sold across borders.

This will probably be in long-term savings at first, backed by the internationalisation of fund management. That in turn is being fanned by the reduction of currency risk and the growth in equity investment on the continent.

The cross-industry deals pursued by the Dutch and Belgo-Dutch financial services groups, ING and Fortis, also point to accelerated change in the way financial *products are sold.*

Indeed it is surprising how much scepti*cism remains about bancassurance, con*sidering how widespread it already is. The question is whether vertical integration between the insurance producer and the bank retailer will pay off better than a looser range of distribution agreements. The main concern about financial services conglomerates is the complexity of their management, especially if the stretch is geographic as well as industrial.

The tests will be the same as for other *multinationals: how effective is head* office at setting strategy, disseminating best practice and imposing financial discipline?

Although the euro-zone deals have considerable logic, it is a difficult bandwagon for outsiders to jump on. Financial services company prices are generally high in Europe, but the risk of overpayment *has been limited in recent deals. Either* the bidder already had a stake – *deterring* rivals and reducing the overall cost – or there were cross-holdings to barter with. In other words, several companies had sown the seeds for cross-border consolidation.

Against this background it is no surprise that UK and Swiss groups have gone *for domestic mergers and the transatlan*tic option – the Zurich/BAT financial services deal – is partly about the latter.

In fact most of the deals are defensive rather than expansionist. The insurance industry's story of overcapacity aggravated by additional competition from new *entrants is well known. With national bar*riers being whittled away in Europe, the urge to merge is unlikely to abate.

Clinton offers investment to woo Ulster doubters

Attempt to win strong Protestant backing for peace deal

By David Wighton in Birmingham

President Bill Clinton and Tony Blair, the UK prime minister, yesterday held out the prospect of a surge of inward investment into Northern Ireland in a last attempt to persuade doubting Protestant voters to back the peace deal.

The offer comes as the province faces a historic referendum on Friday on constitutional changes agreed at Easter. They aim to end 30 years of violence.

While an overwhelming majority *of nationalists are expected to back* the agreement, an opinion poll published *last week showed that a* majority of the unionists who had made up their minds intended to vote against. Unionist misgivings have been growing over issues such as the early release of prisoners and the absence of progress on decommissioning terrorist weapons.

Launching final campaigning before the referendum, both leaders stressed that peace and prosperity *would go hand in hand but that the prospects for* the province would be bleak without a strong Yes vote.

In a *joint television interview* with Mr Blair, President Clinton said there would be increased US investment if the process continued. But the people of Northern Ireland had "a great deal to lose" if they walked away from the agreement.

Mr Blair said the government would "have to stand ready to pick up the pieces" if the vote were No. But the agreement was the only serious way forward for the province.

"I have still not heard from anybody what the alternative is. It is not the status quo," he said.

He conceded that the Yes campaign had suffered a serious setback when terrorists from the Irish Republican Army, on temporary release from prison, received a standing ovation at a Sinn Féin rally.

"I am not in the least surprised at the public revulsion because it is revulsion I share myself. But that isn't a reason for rejecting this agreement," Mr Blair told a press conference at the end of the G8 summit in Birmingham, England.

But Mr Blair said the polls suggested many people were still undecided, who would vote in favour if they were reassured on issues *such as decommissioning and* the early release of prisoners. "We have got to use the last few days to lay that concern to rest," he said.

The Yes campaign is expected to receive a boost this week when Warren Porter, a former leading member of the Protestant Orange Order, calls for a Yes vote. The order, a unionist movement with 80,000 members, has refused to endorse the deal – in spite *of an attempt by Mr Blair to win it* over.

The British prime minister will visit Northern Ireland again on Wednesday, taking a high profile in the run-up to the referendum after polls showed he was trusted by the people of the province, said Downing Street. During the summit Mr Blair lobbied other world leaders over inward investment to underpin the peace process.

Indonesia tries to restart ailing economy as wave of riots subsides

By John Ridding and Sander Thoenes in Jakarta

Indonesia's banking system is due to reopen today as the government tries to restore order and restart the economy after a wave of rioting that *threatens President Suharto's grip* on power.

While quiet returned to the streets of Jakarta and some shops resumed trading yesterday, riots flared in other cities over the weekend. Bankers and diplomats warned of a deep*ening economic crisis after the disor*der, which has left 500 dead in and around the capital.

"The quiet is not calm. It is a state of shock after the violence of last week," said one diplomat. He added that National Awakening Day on Wednesday, the anniversary of Indonesia's first anti-colonial movement, *could provide a focus* for renewed protests.

Seeking to show he remains in charge, Mr Suharto said he would reshuffle his cabinet and called for tough action against rioters. A statement from the military said more than 1,000 had been arrested since riots intensified last week, bringing the capital to a standstill and prompting an exodus of foreigners.

Many in Jakarta blame the mil*itary for failing to stem the unrest*, and it has apologised. "ABRI apologises to all sections of the nation . . . for the conditions that exist at the moment," a statement said. "ABRI is ready to risk all its credibility for the return of security and peace." Diplomats said Mr Suharto's proposed cabinet reshuffle was intended to signal his flexibility. It follows the announcement last Friday of a reduction in the fuel price increases whose introduction at the start of last week triggered the unrest.

But pro-reform intellectuals, former ministers and officers who met at the University of Indonesia on Saturday were scathing, saying Mr Suharto was merely trying to buy time. "It is too little, too late," said *Frans Seda,* a former finance minister.

Student leaders pledged to resume their protests this week. "The students have not lost guts," said Hakim Hatta, leader of the Pijar student movement.

International pressure on Jakarta mounted over the weekend, with the meeting in Birmingham, England, of the Group of Eight leading industrialised countries urging political reform. Many governments are arranging for their citizens to be evacuated.

The US dismissed suggestions that reforms required under a $43bn International Monetary Fund programme had caused Indonesia's social explosion.

The Asian Development Bank is to decide today whether to proceed with a loan to Indonesia. Malaysia said it would go ahead with a $350m bridging loan.

Riots paralyse economy, Page 3
Editorial Comment, Page 15

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Waiting for the magic: German chancellor Helmut Kohl will today try to revive his flagging campaign for an unprecedented fifth term. Page 6

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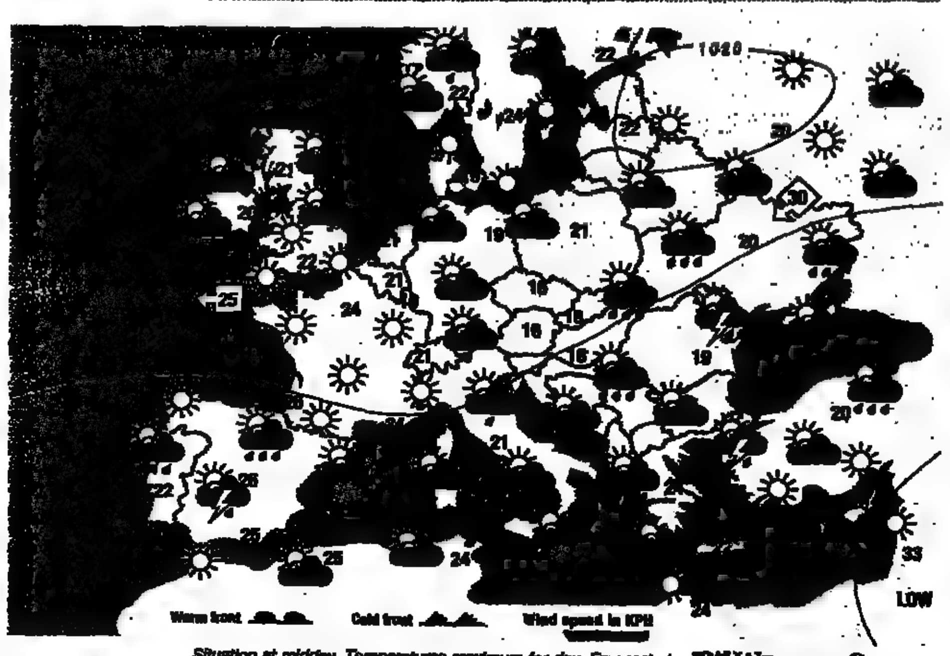
FT WEATHER GUIDE

Europe today

Southern Scandinavia, the Low Countries and France will have plenty of sunshine. After a fine start, Germany and the eastern Alps may have showers, but these will be well scattered. Northern Scandinavia will also be showery. There will be thundery rain across the Mediterranean. The east will be unsettled, but a few thundery showers are also likely across interior parts of the Iberian peninsula. The Balearics and the south coast of France should remain dry and mostly sunny.

Five-day forecast

High pressure across northern Europe will keep it dry and sunny. However, as a low pressure system moves into Scandinavia, a weakening cold front will push south during Thursday and Friday, bringing showers and cooler air. The Mediterranean will have scattered thundery rain.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	38
Accra	Fair	32
Algiers	Fair	25
Amsterdam	Fair	21
Athens	Fair	24
Atlanta	Fair	31
B. Aires	Sun	28
[illegible]	Sun	[illegible]
Bangkok	Shower	36
Barcelona	Fair	23
Beijing	Sun	24
Belfast	Fair	20
Belgrade	Shower	18
Berlin	Fair	19
Bermuda	[illegible]	24
Bogota	Thunder	20
Bombay	Fair	35
Brussels	Fair	[illegible]
Budapest	Shower	18
C.hagen	[illegible]	19
Cairo	Sun	31
Caracas	Sun	33
Cardiff	Sun	21
Casablanca	Fair	21
Chicago	Thunder	31
Cologne	Fair	21
Dakar	Sun	27
Dallas	Fair	35
Delhi	Sun	39
Dubai	Sun	37
Dublin	Fair	20
Dubrovnik	Shower	[illegible]
Edinburgh	Fair	20
Faro	Fair	[illegible]
Frankfurt	Fair	18
Geneva	Sun	21
Gibraltar	Fair	26
Glasgow	Fair	21
Hamburg	Fair	20
Helsinki	Fair	22
Hong Kong	Rain	30
Honolulu	Fair	[illegible]
Istanbul	Shower	[illegible]
Jakarta	Shower	33
Jersey	Fair	20
Johannesburg	Sun	19
Karachi	Fair	[illegible]
Kuwait	Sun	42
L. Angeles	Fair	20
Las Palmas	Fair	24
Lima	Sun	23
Lisbon	Shower	22
London	Sun	22
Lux.bourg	Sun	19
Lyon	Sun	22
Madeira	Fair	23
Madrid	Thunder	28
[illegible]	Fair	26
Malta	[illegible]	23
Manchester	Sun	21
Manila	Fair	33
Melbourne	fog	20
Mexico City	Sun	32
Miami	Fair	30
Milan	Fair	22
Montreal	Sun	22
Moscow	Fair	20
Munich	Shower	16
Nairobi	Thunder	25
Naples	Fair	21
[illegible]	Fair	30
New York	Sun	29
Nice	Fair	27
Nicosia	Sun	28
Oslo	Sun	22
Paris	Sun	24
Perth	Shower	21
Prague	Shower	18
Rangoon	Shower	34
Reykjavik	Shower	8
Rio	Sun	29
Rome	Fair	[illegible]
S. Frsco	Sun	[illegible]
Seoul	Fair	21
Singapore	Shower	32
Stockholm	Fair	24
Strasbourg	Fair	20
Sydney	Rain	19
Tangier	Fair	25
Tel Aviv	Sun	33
Tokyo	Rain	23
Toronto	Fair	26
Vancouver	Shower	14
Venice	Fair	21
Vienna	Shower	16
Warsaw	Shower	[illegible]
Washington	Fair	30
Wellington	Fair	15
Winnipeg	Rain	20
Zurich	Fair	18

FINANCIAL TIMES
COMPANIES & MARKETS
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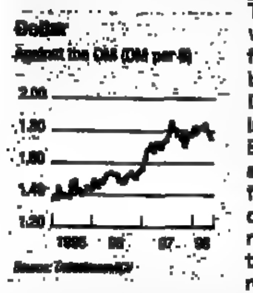
INSIDE

German insurer aims for dominance
The approach of European economic and monetary union has caused a struggle for market share among the continent's principal insurers. With premium income of DM110bn ($60.4bn) Allianz, Germany's biggest insurer, is emerging as one of only a few European companies capable of dominating a single market in insurance. Page 20

Lafarge to tap eurobond market
Lafarge, the French construction company, will join a growing list of big-name borrowers when it taps the euro-denominated bond market this week with an E500m offering. The bond is seen as a minor landmark by bankers at Paribas, which will lead-manage the issue. Market Movers, Page 19

Dollar faces testing week



The dollar begins the week on a vulnerable footing. It has been rallying against the yen and D-Mark in spite of growing evidence that the European economies are accelerating. The dollar faces another test the day after the Fed's meeting, when the US trade deficit for March is revealed. The D-Mark could benefit from more strong German economic data, which are expected throughout the week. Currencies, Page 24

Indonesia crisis troubles investors
The return of positive sentiment to Indonesia is not just a question of President Suharto standing down. A new head would still inherit a weak economy, instability could spread to Indonesia's neighbours and, worst of all, a political breakdown creates the possibility of Indonesia defaulting on its overseas debts. Emerging Markets, Page 21

Trafford Park's merger plans upset
After spurning overtures for 30 years, Sir Neil Westbrook, chairman of Trafford Park Estates, has finally put the UK property group into play. But its merger deal with Chesire-based Barlows, has roused the interest of what is now a hostile party, Green Property of Dublin. Page 18

Japanese bond market sees surge
While leaders of the G8 industrial nations worry about the record equity prices being recorded in the US, on the other side of the Pacific another striking market surge is under way – in Japanese government bonds. Government bonds, Page 20

COMPANIES IN THIS ISSUE

MARKET STATISTICS

BELGIAN BANK WILL BECOME ONE OF EUROPE'S TOP TEN FOLLOWING AGREED $11.1BN ALL-SHARE BID

Fortis to merge with Générale

By Neil Buckley in Brussels and Jane Martinson in London

Fortis, the Belgian-Dutch financial services group, will announce this morning an agreed $11.1bn all-share bid for Générale de Banque, Belgium's biggest bank, to create one of Europe's top 10 banks.

The move is expected to be quickly followed – possibly today – by an offer by Suez Lyonnaise des Eaux, the French utility company, for the 36.6 per cent it does not already own of Société Générale de Belgique, Belgium's biggest holding company. SGB is the leading shareholder in Générale de Banque with almost 30 per cent, and also has a stake in Fortis.

The banking merger, that will create a group with total market capitalisation of almost $35bn, is one of the biggest examples yet of the quest for size among European banks and financial groups as they prepare to face the European single currency next year.

It will give the Belgian government the "Grande Banque Belge" it has long pressed for, and mark the final stage of a rush of alliances, mergers and takeovers that have involved all Belgium's top eight banks.

The Fortis/Générale and Suez/SGB moves together will also change the face of Belgium's corporate sector, leading to two of Belgium's largest and oldest companies disappearing from the Brussels bourse.

The seven-for-three offer by Fortis AG, the group's Belgian arm, for Générale de Banque values the bank's shares at BFr24,783, a 14 per cent premium to Friday's closing price of BFr21,850, and values the whole of Générale de Banque at BFr409bn.

Fortis AG will announce a BFr153 dividend for existing shareholders at the same time, to be paid before the deal is completed.

SGB and two other main shareholders have already agreed to exchange their stakes in Générale de Banque, totalling 33.2 per cent, for Fortis shares.

Fortis AG has been advised by JP Morgan, while the Belgian-Dutch Fortis parent group was advised by Morgan Stanley Dean Witter.

The transactions will considerably simplify Suez-Lyonnaise's financial holdings in Belgium, leaving it with a direct stake of about 25 per cent in the enlarged Fortis. It is expected to reduce this to about 20 per cent in the near future.

The restructuring is part of Suez-Lyonnaise's attempt to focus its activities on utilities, particularly the 50.3 per cent direct stake it will be left with in Tractebel, the fast-growing Belgian energy group, and to meet its pledge to double earnings per share by 2002.

Volvo set to slash supplier base in cost-cutting drive

By Tim Burt in Stockholm

Volvo, the Swedish automotive group, is planning to cut its supplier base by about three-quarters in an attempt to drive down purchasing costs and improve operating margins.

The company, which sources car components from some 400 "tier one" suppliers, hopes to reduce that total to about 100 by 2005.

Leif Johansson, chief executive, said the plans marked the latest step of the Volvo 2000 campaign – a strategy announced in December to lift productivity by 5 per cent a year and increase annual sales by 10 per cent to SKr250bn ($32bn).

In an interview with the Financial Times, he said: "We are not satisfied with operating margins at present and cutting the supplier base is one way to reduce operating costs."

Volvo is aiming to cut its SKr100bn purchasing budget by about 9 per cent a year and lift operating margins from 4 per cent to 5-7 per cent.

Mr Johansson, who joined Volvo in 1997 after three years as chief executive of Electrolux, the white goods manufacturer, said a lean supplier base was a vital part of Volvo's strategy of focusing on two platforms in its car division.

"We are full of confidence that this is the right route for Volvo," he said, adding that consolidation in the automotive industry following the recently announced merger of Daimler Benz and Chrysler posed little threat to Volvo.

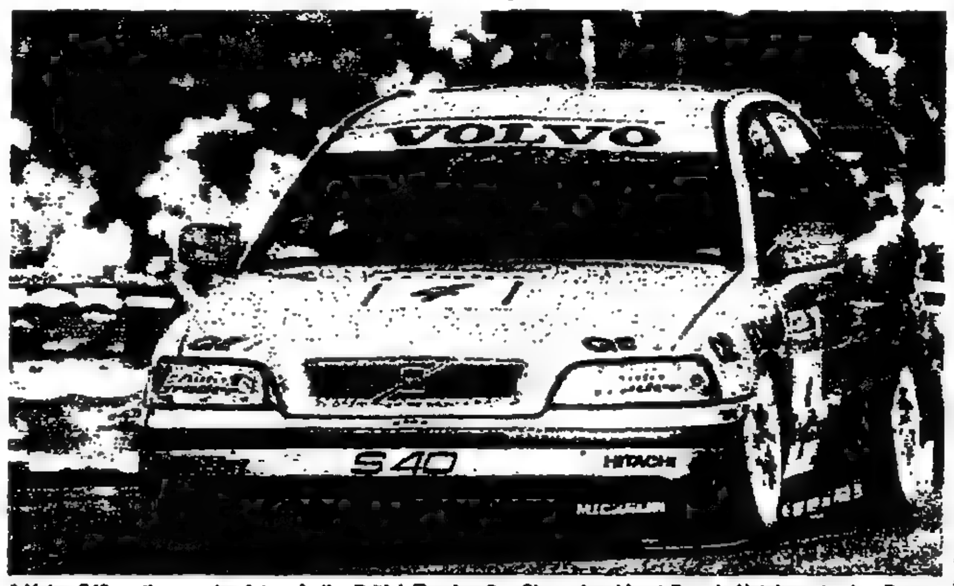
As part of the cost-cutting programme, the Swedish group is switching from dual sourcing to single-sourced car parts, with suppliers being more responsible for pre-assembling component modules. Volvo is expected to underline the benefits of that strategy next week when it launches its new S80 large car.

Anders Franzen, Volvo Cars' vice-president for strategic sourcing and purchasing, said the new car would rely on 70 fewer suppliers than the S90/V90 range it is replacing.

"On this car, we aim to use no more than 150 suppliers, and, if you look into the future, we could end up with only 100 suppliers across the division," he said.

In developing the S80 – estimated to have cost SKr30bn – Volvo has farmed out development work and pre-assembly of sub-systems such as brakes and seating to single suppliers.

Mr Franzen said Volvo hoped to forge deeper partnerships with such suppliers, leading to lower costs and more efficient delivery and assembly times.



A Volvo S40 on the way to victory in the British Touring Car Championship at Brands Hatch yesterday Reuters

ICI sale to DuPont held up by competition inquiry

By Jenny Luesby in London

The planned $750m sale of Tioxide, titanium dioxide subsidiary of Imperial Chemical Industries of the UK, to DuPont, US chemicals group, is embroiled in a protracted US competition investigation into its impact on European and Asian markets.

The sale of Tioxide's European assets to DuPont, scheduled for completion early this year, is part of a $3bn deal, in which DuPont also acquired ICI's global polyester business.

The polyester sale was completed on December 31, after clearance in both Europe and the US. But while EU competition authorities agreed to the titanium dioxide acquisition in October, the US has yet to follow suit.

ICI and DuPont had sought to avoid objections on competition grounds by selling Tioxide's 50 per cent stake in a North American plant to a third party.

DuPont's share of the US titanium dioxide market is set to rise, owing to Tioxide's established exports from Europe into the US, from 40 per cent to 44 per cent on completion of the deal.

However, the US Federal Trade Commission investigation is understood to have finished considering the impact of the deal on the US market. It is the potential global impact that has triggered a round of intensive negotiations with DuPont.

In Europe, DuPont's market share in titanium dioxide – the main pigment used in paints and plastics – is set to rise from 12 per cent to 35 per cent, and in Asia, excluding Japan, the group will command 39 per cent of the market, compared with 22 per cent.

The FTC is widely believed to be seeking a third-party sale for at least one of Tioxide's European plants. Within Europe, Tioxide's seven sites have the capacity to produce 435,000 tonnes a year of titanium dioxide. This compares with 55,000 tonnes at its part-owned North American plant and 90,000 tonnes at sites in South Africa and Malaysia.

Titanium dioxide is one of few chemicals in the US subject to a consent decree, whereby anyone working in the industry must pledge not to engage in anti-competitive practices.

Federal-Mogul may halt brakes consolidation

By Haig Simonian, Motor Industry Correspondent

Federal-Mogul, the US engine parts group that owns T&N of the UK, could start making brakes in a move to reverse the recent consolidation of the world's multi-billion dollar automotive brake business.

The move comes as Dana, a leading US components group, awaits approval for its $3.5bn planned acquisition of Echlin, a car parts group with substantial braking activities.

Buying Echlin would give Dana the expertise to supply complete component "corners" to car and truckmakers.

Consolidation in the parts industry has led to a sharp rise in the use of corners. Such modules are assembled by one supplier but comprise parts for suspension, chassis and steering that were previously delivered separately.

Brakes have, however, resisted the trend towards modularisation and still tend to be supplied as independent units for separate installation by the vehicle manufacturer.

Dick Snell, Federal-Mogul's chairman, said the possible expansion into brakes would come via T&N. The UK company's Ferodo subsidiary is a leading manufacturer of friction materials used for brake pads. However, Mr Snell revealed in an interview that T&N had also been conducting secret development work on a new, lighter weight and highly durable braking technology.

Federal-Mogul and Dana are also believed to have considered bidding for the braking activities under review by ITT Automotive, one of the market leaders. The review, expected to lead to a sale, would trigger the biggest shake-up in the industry since the acquisition of Allied Signal's hydraulic brake business by Bosch two years ago.

Mr Snell said he had declined to bid for the ITT operations because of price. Observers expect ITT to receive strong interest from other big automotive suppliers, including Siemens of Germany and Tenneco Automotive of the US. Details of Dana's plans for Echlin remain unclear, as the company has been prevented from giving more information under SEC rules. However, the deal should buoy Dana by providing braking technology and reinforcing its strong aftermarket business for automotive parts. About $2.4bn of Echlin's $3.6bn annual sales are to the aftermarket.

Separately, Mr Snell said Federal-Mogul had made progress in identifying possible buyers for its thin-walled engine bearings business.

SIMON DAVIES
GLOBAL INVESTOR

Benefits in the east

With the agreement on the membership of the European single currency club, one of the most profitable games in the recent history of the regional capital markets has come to an end. But there could be more membership games to come.

Interest rate, currency and bond yield convergence among the so-called Club Med countries, primarily Italy and Spain, brought enormous gains to investors, with Italian bond yields falling by 700 basis points – or seven percentage points – in the past three years.

The first wave of European economic and monetary union members have effectively converged. And the pickings from potential convergence of a second phase of membership – which may well include the UK, Denmark, Sweden, and possibly even Greece – are also getting a little thin. The 10-year Swedish government bond yields only 32 basis points more than Germany's.

Further east, however, there are a raft of countries that are priced as emerging market debt, but have the potential to attach themselves to the coat tails of German economic credibility within a realistic time frame.

David Levey, co-head of the sovereign risk unit at the credit rating agency Moody's Investors Service, says: "The next big question for the euro will be expansion to the East".

The Czech Republic, Hungary, Poland and Slovenia look like realistic candidates for Emu membership over a five to 10-year horizon, and they all have government bond markets. And the great thing about the desire to join Emu, as Italy demonstrated, is that it imposes a fearsome straitjacket on fiscal policy, one that is good for bond investors.

Indeed, in the lead-up to membership, currencies would be expected to have informal links to the euro, providing more currency and interest rate stability.

Shorter-term yields on local government bonds in these countries range from 15-25 per cent, 1,000 basis points – or 10 percentage points – higher than in Germany.

Of course, an enormous transformation is required for these countries to fulfil the requirements both for European Union membership and Emu.

It is easier for governments to be fiscally austere when annual per capita income is $25,000, rather than $7,000. And there is considerable political risk. Yields on Ukrainian eurobonds are 1,000 basis points higher than Poland's, demonstrating the potential downside.

Certainly, Italy and Portugal offered better credit ratings and less cause for political concern at the start of the 1990s than these East European countries have now.

But Sonja Gibbs, senior market strategist at Nomura International, argues: "For those countries whose governments are keen to join the EU, there is little prospect of policies that are not favourable to investors. And the tangible benefits to these countries of EU membership are enormous."

They are not laden with the same debt levels as Western counterparts such as Italy and Belgium. Budget deficits are, with the exception of Hungary, well short of the Maastricht hurdle of 3 per cent of gross domestic product, and that is without the accounting tricks pursued by some of the Emu 11.

Inflation has also tailed down considerably in these countries and is not far off the levels of the Club Med countries before the last recession. And trade is already highly integrated with the Emu zone.

Mr Levey also points out: "From the point of view of the French or German political leaders, these countries offer less of a competitive threat if they are brought inside." They also offer the attractions of a new frontier for investment, while they are such a small part of Emu GDP, that the cost of inclusion should not be an enormous impediment to membership.

Of course, there are technical hurdles for investors to leap as well. To get the full benefits of convergence, investors have to go for local currency government bonds. And these countries boast relatively small debt markets and few liquid medium-term benchmark bonds.

Financial structures in these countries are also little developed. After adjustment for international standards on loan provisioning, not one of these countries can boast a banking sector the size of a medium-sized Western bank.

Moreover, if there is another bout of Asian market flu, Eastern European markets are bound to catch a cold, as they did last year. But given the political commitment to union on both sides of the euro border, the risk/reward ratios for some of these high-risk markets could take a significant shift for the better.

Decaux may be compelled to make asset disposals

By Andrew Edgecliffe-Johnson

Decaux, the French group competing with Clear Channel of the US to take over More Group, may have to dispose of some Continental assets if its bid for the UK bus shelter, billboards and transport advertising company succeeds.

Although Decaux's £475m bid is conditional only on clearance from UK competition authorities, which will deliver their verdict by Thursday, it may have to make subsequent concessions to authorities in Sweden, Denmark and Belgium.

Jean-Francois Decaux, chairman and chief executive, said that if Decaux were allowed to take over More it would control about 90 per cent of the entire outdoor advertising market in Sweden, 65 per cent of the Danish market, and about a third of the Belgian market.

In the UK, Decaux has argued that competition authorities should examine its bid in the light of the outdoor advertising market, of which More and Decaux together control 24 per cent, rather than the narrower bus shelter advertising market, where the combined share is about 90 per cent.

Mr Decaux said that he hoped the group would not be forced to make disposals, but that in Sweden it would first divest More's bus advertising business if forced to, and would sell More's train contracts in Belgium if needed.

Decaux, he added, had no interest in retaining MoreTrans, More's transport advertising business, which represented 3 per cent of More's £144m sales in 1997. In Sweden alone, MoreTrans has the contract for advertising on 1,600 subway cars and 1,000 buses.

Industry executives are not expecting Decaux to offer any divestments in the UK, and feel that such concessions would be unlikely to assuage any competition concerns. Under UK competition rules, any divestment must create a genuine competitor, which disposals of individual local authority contracts would be unlikely to achieve.

The possibility of continental disposals may create opportunities for other outdoor advertising companies such as Wall of Germany, or the French groups Avenir and Dauphin. As part of its efforts to expand, Wall wrote to some local authorities in London last month.

Industry executives believe other US groups may try to buy assets from Decaux as a means of establishing a European base. Mark Mays, Clear Channel's president, said last week that it had looked at several other European outdoor advertising companies, but they were "not nearly as attractive as More".

Analysts are divided over the risks that Decaux's bid will be referred to the Monopolies and Mergers Commission, but Simon Holmes, a competition expert with solicitors SJ Berwin, said: "From our analysis of the fundamental issues we think there's a significant risk of a reference."


More sales? Jean-Francois Decaux — Brendan Corr

Cortecs signs marketing deal

By Roger Taylor

Cortecs, the biotechnology company, has signed a marketing deal with Glaxo Wellcome for its lead drug Macritonin, which is currently awaiting approval in a number of European countries.

The marketing deal – to be announced today in London – only covers Greece and is worth about $14m (£8.3m) to Cortecs over a number of years. However, Cortecs is understood to be in talks with a number of other companies about licensing deals for other European countries. It has already agreed deals with covering Spain, Japan and Israel.

Macritonin is a pill form of the drug calcitonin, used to treat osteoporosis, which is currently only available either as an injection or a nasal inhaler.

Cortecs is following an unusual licensing and marketing strategy, applying for approval in a range of smaller European countries and licensing the product to different companies in each country. To date, Calcitonin has been filed with the regulators for approval in Ireland, Finland, Spain, Portugal, Luxembourg, Austria and Greece.

The market for calcitonin in Greece is thought to be worth about $30m a year. However, Cortecs believes that if an oral form of the drug is approved, usage will become more widespread.

Powerscreen criticised over sale

By Robert Wright

John Mathew, the former owner of Powerscreen International's Matbro subsidiary, has criticised the way the business was sold, claiming the Northern Irish engineer could have done better out of the deal.

Mr Mathew last month put together finance to buy back the subsidiary founded by his father and uncle in 1949, but pulled out of a deal to buy it because so much of the equipment had already been dismantled.

The machinery at the company's Tetbury factory had been packed in preparation for shipment to sites belonging to John Deere, the US agricultural equipment maker which was front runner to buy the business.

Powerscreen said Matbro was responsible for £46.6m ($77.8m) of exceptional losses which hit the company during the year to this March. Matbro's losses are now the subject of a Serious Fraud Office inquiry.

Deere paid £7m for Matbro's design rights and some of its stock. Deere was one of the most obvious candidates to buy Matbro because it bought one of Matbro's telescopic handlers, a form of specialist tractor, for its own range of machinery.

Mr Mathew, who sold Matbro to Powerscreen for £4.8m in 1991, would have paid £4.4m for Matbro and taken on creditors of £9.8m and warranty liabilities of £3m. Deere paid asset value for £4.7m of design rights and about £2.3m of Matbro's stock, leaving Powerscreen with assets, including the Tetbury factory, valued at £2.4m, stock valued at £5m and debtors of at least £2.8m.

Mr Mathew said he would not have gone ahead with the purchase because so much of the Tetbury plant had been dismantled on the assumption the Deere deal would go through. But he was shown around the plant with executives from Omniquip, the US equipment maker, for whom the cost of factory refitting might not have been such a problem.

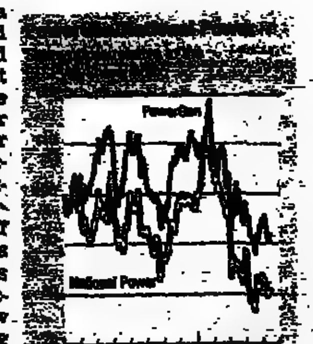
However, on Wednesday April 22, the bidders were given until the coming Sunday evening to sign an unconditional contract and told to place £4.4m in an escrow account that day. The timetable persuaded the US executives also to walk away from the deal, according to Mr Mathew. Omniquip was not able to comment.

While the deals appear to leave the two rival bids roughly equal in value, Mr Mathew would have kept the Tetbury plant open, preserving the jobs of those working there, and would have taken on the cost of meeting liabilities. Powerscreen said it was satisfied it had achieved the best deal possible in the sale of Matbro under the circumstances.

Powerscreen appears to have been anxious in the run-up to the sale to prevent Deere walking away from the deal. A sale to any other company would have been more complicated because so much of the warranty liability was owed to Deere, which could have obstructed the efforts of any other owner to sort out Matbro's problems.

COMMENT

Generators



A deal on coal, involving a moratorium on new gas-fired power stations, may be bad news for the consumer. But it would be a boon for the generators, National Power and PowerGen. Their power to set the pool price of electricity is buttressed by limiting competition. True, a moratorium would not choke off the flow of new entrants immediately – some plants are already under construction. But by 2000, the flow will have dried up, stabilising prices and volumes. This would be as good for the generators as it would be embarrassing for the government. A package which married a moratorium with tough action on their dominance would be more palatable.

This could take two forms: a price cap on generation or forcing plant disposals. The first need not be negative for the generators. It depends how a cap is set. Pool prices are still well above where they should be in a fully competitive market. A cap which used current prices as a starting point could end up being quite benign for them.

Anything more radical, including big plant disposals, could mean they refuse to do a deal. That is the bind facing governments when they intervene.

Asda/Kingfisher

Asda is a fashion victim after all. It resisted retail fads such as loyalty cards, only to be beguiled by the cross-selling concept. The talks between Asda and Kingfisher, now terminated, would have created a huge retail conglomerate. Would such a combine make sense?

The deal has some financial logic. Overlapping sales in clothing, music, toys, and medicines would have topped £3bn ($5bn). These would surely have yielded savings through squeezing suppliers, And for Asda, it would have meant a far swifter expansion of non-food retailing than by building brands organically.

But it is hard to see how this last point helps Kingfisher. The idea of its best brands being sold through Asda surely carries risk. Asda would only have space to sell a limited range of Comet electrical goods. Kingfisher has more to gain if consumers get exposed to the whole range, even if all they need is a toaster. Furthermore, pulling together all the Kingfisher and Asda brands would have been no small logistical challenge. The hiccups along the way would have been Christmas come early for their rivals.

Kingfisher and Asda talks end after two weeks

By David Blackwell

Talks that could have led to a £13bn ($21.7bn) merger between Asda and Kingfisher collapsed after two weeks on Saturday.

Sources close to Kingfisher said the two groups had been in exploratory talks on the possibility of a full-blown merger. But Asda was back-pedalling yesterday, saying the talks had been examining ways of working together in overlapping areas. No further meetings were planned.

Kingfisher was making no comment yesterday, but analysts suggested that a merger would not defy logic. Asda, which has larger than average supermarket outlets, has moved into areas such as clothing, entertainment and pharmacy. Kingfisher, owner of B&Q, Comet, Woolworths and Superdrug, might have been able to find additional markets for its electrical and DIY goods.

Asda, the UK's third largest supermarket group, last September was forced to suspend talks on a £9bn merger with Safeway, the fourth largest, when the news was leaked to the press. The two felt that they would be unable to obtain advice on the deal's possible referral to UK competition authorities.

Yesterday one analyst said the talks with Kingfisher had reinforced his conviction that Asda's management faced a problem over how to generate medium term growth. Kingfisher's exposure to the high street and non-food markets, as well as its presence in Europe, would have provided an ideal solution.

Asda has used non-food goods to drive its sales rapidly ahead. It devotes 10,000 sq ft of its bigger stores to clothing under its George brand, and has a large business in CDs and videos. While attacking resale price maintenance, it has built a big own-label offer in medicines and beauty products.

Irish gatecrasher spoils Trafford Park's wedding party

The north-west property company's plans to merge with Barlows have been upset. Sheila Jones reports

Sir Neil Westbrook, the 81-year-old chairman of Trafford Park Estates, has finally put the north-west of England property company into play after spurning approaches for the past three decades.

Sir Neil has a reputation for being difficult in negotiation, and the industry was surprised when Richard Fildes, chairman of Barlows, the Cheshire-based property group, pulled off an agreement to merge with Trafford Park, its larger rival. But in agreeing the deal, Sir Neil inadvertently roused the interest of what has become a hostile party, Dublin-based Green Property.

Days before Sir Neil hoped to secure the agreement of shareholders for the Barlows merger at an extraordinary meeting, Green came in with an offer of 206p in its own shares with a cash alternative of 185p a share, valuing the company at £127m.

Last Friday, instead of agreeing on the Barlows merger, which Sir Neil had hoped would allow him to finally stand down from the company, the shareholders' meeting agreed to adjourn for a fortnight to look at what was on offer from the Irish group. Sir Neil made clear he did not like the offer, which, he told shareholders, undervalued the company. Green had one week to come up with a "final and formal offer".

About a third of Trafford Park's portfolio is in Manchester's Trafford Park industrial estate, the oldest industrial park in Europe. After a 10 year regeneration programme, it is near to full occupancy, with new tenants as well as old, prestigious names such as Kellogg's and Procter & Gamble.

It is wedged between Manchester United football ground and the new G Centre, a £600m retail and leisure development owned by Peel Holdings, the region's largest property company.

Few doubt that Trafford Park's growth prospects have been enhanced by the recent spate of investments in Manchester, such as the Trafford Centre due to open in September.

However, analysts argue the rest of its portfolio is less glamorous and its management team conservative in a lively market where rental rates and property values are rising.

For shareholders, the choice is unclear. Sir Neil has kept his cards so close to his chest for so long that few have a clear idea of the true value of the company's assets.

The portfolio was last valued a year ago at £155m, giving the shares a net asset value of 167p against the 185p a share cash offer and its close on Friday of 179½p, up a penny on the day before.

Danny Kitchen, Green's finance director, said the offer, made informally, gave "very reasonable value" and would not be increased unless Trafford Park came up with new information that persuaded Green otherwise. He did not believe the company's value had risen more than 10 per cent in the last year.

"We have been trying for two weeks to get information but they have not been prepared to talk to us. There is no point sitting in a trench throwing money at them when effectively we're looking at a pig in a poke," he said. "If Sir Neil thinks we are undervaluing the company, why is he issuing Trafford Park shares at 160p to buy Barlows?"

Julian Grice, director at Henry Cooke Lumsden, the Manchester-based broker, believes Trafford Park's net asset value may now look more like the 200p-210p implied in Green's paper offer, although institutional investors, which hold more than 50 per cent of Trafford Park's shares, are wary about an Irish company that has come out of the blue with no connections in the regional market.

Green's offer gives the option of a cash exit for many of the small shareholders who have been with the company for decades and had hoped for a chance to realise some value, although the value of that exit is hard to gauge. "At least a cash exit is now an option," said one shareholder. "That wasn't on offer with the Barlows merger."

Barlows, meanwhile, which may have been thwarted at the final hurdle, is seen as a company that has little to bring to the table. It is highly geared and relatively small.

There is "a fit" in terms of the property portfolio, according to one institutional investor, but a merger "would dilute the company's value and it is not a scintillating prospect in management terms".

The best shareholders can hope for, according to Mr Grice, is that other, better quality companies will enter the fray.

The most obvious suitor, Peel Holdings, has made approaches in the past but lost patience with Sir Neil. Now it says it has enough on its plate with the Trafford Centre and it is "not interested" in Trafford Park Estates.

ENGINEERING ANGLO-NORWEGIAN GROUP BLAMES SHIPBUILDING, OIL AND GAS FOR 'UNSATISFACTORY' RESULT

Kvaerner reports flat first quarter

By Tim Burt in Stockholm

Kvaerner, the Anglo-Norwegian engineering and construction group, has blamed "unsatisfactory" performances by its shipbuilding and oil and gas divisions for flat first-quarter profits.

The company announced unchanged pre-tax profits of NKr224m ($30m) for the first three months of the year, even though sales rose 31.5 per cent from NKr15.2bn to NKr20bn.

"The first quarter of 1998 was marked by difficult trading conditions in most of our core markets," said Erik Tonseth, chief executive. "The consolidated results for the group are not satisfactory."

At the operating level, profits rose from NKr442m to NKr523m, although the improvement was flattered by a NKr180m gain on property disposals. Excluding one-off items, operating profits fell from NKr393m to NKr343m.

That decline was exacerbated by sharply reduced contributions from Kvaerner's shipbuilding activities, where operating profits fell from NKr290m to NKr166m after cost over-runs at the Masa shipyard in Finland.

Mr Tonseth also blamed project cancellations in Asia and delayed oil and gas contracts in the North Sea for the disappointing figures.

Profits fell in the oil and gas division – from NKr85m to NKr66m – amid weak margins on large development contracts in Norway and the UK. The metals division contributed NKr25m compared with NKr42m last time.

Of the remaining divisions, pulp and paper reported deepening losses of NKr49m – up from NKr37m – while the so-called "other businesses" arm, including the Cunard cruise line, announced reduced losses of NKr60m, down from NKr166m.

Mr Tonseth said last month's NKr3.8bn sale of Cunard to Carnival Corporation of the US would help reduce group debt.

Kvaerner's interest bearing liabilities of NKr14bn are expected to be further reduced this year with the sale of non-core properties in London and its US housebuilding interests.

Excluding the affect of such disposals, Mr Tonseth predicted the results for the full year would show an improvement on 1997.

In the first three months, one of the few bright spots was the construction division, reversing a NKr14m loss in the first quarter of 1997 with a NKr34m gain this time. The process division saw profits rise from NKr20m to NKr43m.

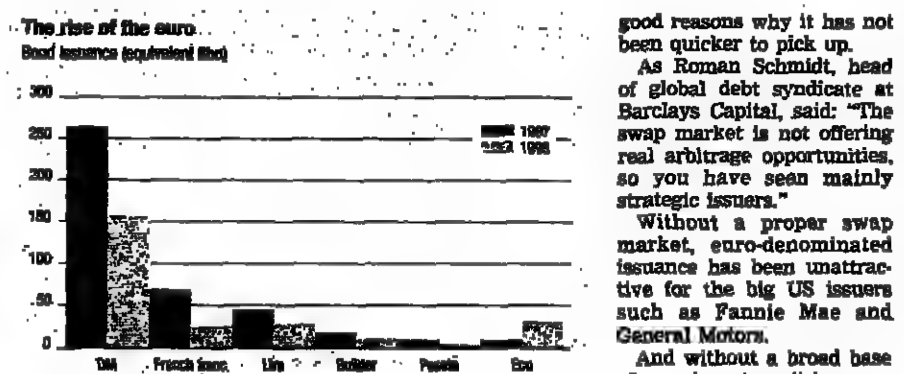
Nevertheless, earnings per share fell slightly from NKr3.80 to NKr3.77.

Companies to launch next phase of euro issuance

Corporate sector is turning to bonds denominated in the new currency, write **Edward Luce and Simon Davies**

Market movers

The rise of the euro
Bond issuance (equivalent $bn)



Source: Capital DATA Bondware

Lafarge, the French construction company, will join a growing list of big-name borrowers when it taps the euro-denominated bond market this week with an E500m offering. The bond, which will be Lafarge's first bond in any currency other than the French franc, is seen as a minor landmark by bankers at Paribas, which will lead-manage the issue.

"This is the sort of A-rate European corporate which will be the bread and butter of the euro-denominated market after monetary union," says David Ovenden, a senior banker at Paribas. "There are a large number of European companies looking to follow suit."

Although the volume of euro-denominated issues has surged this year to the equivalent of $31bn, from just over $10bn last year, the market has been almost completely bereft of corporate names. Big sovereign bond issues – including offerings from Italy, Spain, Finland, Sweden, Greece, Brazil and Argentina – have set down benchmarks in the future single currency.

Among non-financial European corporates only Olivetti and Parmalat, the Italian companies, have so far come to the market. "The euro-denominated market has just completed the first phase of its existence," said one lead-manager in London. "We now have basic, liquid sovereign benchmarks. What comes next are the banks and corporates and Japanese and US borrowers."

Bankers say corporates are likely to be driven to the euro market by the international scope of its investor base and by the fact that it will be the second most liquid bond currency after the US dollar.

Unlike bonds denominated in D-Marks or Italian lire, the investor base for euro offerings are not dominated by one nationality, providing for more cross-border liquidity than any currency except the US dollar.

Partly as a result of this, the volume of bonds denominated in the euro has surged in the past four months, from sixth position among European currencies in 1997 to second so far this year, behind the DMark.

However, syndicate officials say widespread predictions that the volume of euro issuance will explode before next January are exaggerated. For one thing, the market still retains some artificial characteristics.

Ecu/euro bond issuance died down in 1992 with the vote against the Maastricht Treaty in Denmark, and there there are plenty of good reasons why it has not been quicker to pick up.

As Roman Schmidt, head of global debt syndicate at Barclays Capital, said: "The swap market is not offering real arbitrage opportunities, so you have seen mainly strategic issuers."

Without a proper swap market, euro-denominated issuance has been unattractive for the big US issuers such as Fannie Mae and General Motors.

And without a broad base of euro investors, it has generally been more expensive for issuers to launch bonds in euros rather than European currencies.

Traders argued that the success of the recent euro-denominated tranche of dual currency bond issues from Finland and Sweden was because they were much cheaper and offered an arbitrage opportunity.

One US investment banker said: "The supranationals and sovereigns still get much better execution in the European currency or dollar markets than in euros."

And a lot of the standard investors in corporate bonds have been unwilling to pursue euro-denominated issues, except in the speculative grade category, which has its own specialist investor base.

Then there is the currency issue. Ecus are swapped into euros on a one-for-one basis, but 13 per cent of the Ecu value is accounted for by sterling, and there is further non-Emu dilution from Sweden, Denmark and Greece. So buyers of euro-denominated bonds are taking on currency risk.

As Mark Gull, senior fixed-income fund manager at Gartmore, said: "We think that the balance of risk is that sterling continues to fall, so we would be better off buying Deutschemark or French franc bonds."

But there is every chance that the level of issuance will increase. Paul Hearn, head of European capital markets at J.P. Morgan, said: "Most of the sovereign issuers have been strategic. They are clearly trying to position themselves in terms of attracting funds when the euro market becomes a substantial single market."

Strategic issues are every syndicate desk's dream, since they are priced for success rather than to achieve the cheapest borrowing rates available.

Moreover, as Mr Schmidt says, "there is a competition among bankers to make it into the euro league tables for 1998", so banks are clearly using their persuasive powers to encourage greater issuance.

Sanoma to merge with rivals

By Tim Burt in Stockholm

Sanoma Corporation, the privately owned Finnish media group, is planning to merge with rivals WSOY, one of Finland's largest publishing houses, and Helsinki Media to create the second largest newspaper and broadcasting conglomerate in the Nordic region.

Although few figures have been released ahead of the merger, the combined market capitalisations of the three partners exceed FM13bn ($2.4bn).

Under the terms of the deal, Sanoma is proposing a share swap with WSOY and Helsinki Media while preparing to list the enlarged group on the Helsinki stock exchange in May next year.

The combined group will publish several of Finland's leading newspapers, including the country's largest daily Helsingin Sanomat, and operate the Channel 4 television network and Startel, the news agency.

Pro forma sales for the company – to be called Sanoma-WSOY – are expected to reach FM7.4bn this year, including contribution from magazines, cinemas, printing operations and publishing houses.

In all, the group will employ more than 10,000 people.

When the deal was announced on Friday, shares in WSOY jumped FM128 to FM365, a rise of 53 per cent.

Analysts expect the new company to challenge the dominance of Alma Media, the fast-growing Finnish media group, and consider expansion into neighbouring markets.

"The merger will create possibilities for high-quality publishing, internationalisation, exploitation of modern technologies and profitable operations," said Jaakko Rauramo, chief executive of Sanoma. Mr Rauramo is to be president of the merged group, with Antero Siljola, chief executive of WSOY, as his deputy.

NEWS DIGEST

BANKING

Disposals help Dresdner advance by 23%

Dresdner Bank, Germany's second largest, raised first-quarter pre-tax profits 23 per cent to DM1.1bn with the help of sales of its outside shareholdings, Bernhard Walter, chairman, told the annual meeting. But this rate of increase could not be taken as an indication of the result for the full year.

Operating profits – which exclude these extraordinary gains – gained 12 per cent to DM1.1bn before risk provisions but only 3 per cent to DM887m after provisions.

Net commission income rose by 23 per cent to nearly DM1.5bn. Net interest income was 12 per cent higher at just under DM2bn, with financial trading profits also up 12 per cent to DM370m. The pre-tax return on equity was 23 per cent.

Mr Walter, said Dresdner would strengthen its position in core European countries. Belgium, the Netherlands and Austria were markets where the bank was under-represented.

Dresdner would continue to expand its US investment banking operations. Acquisitions might be considered where suitable. "We shall be open for alternatives, provided they serve to achieve our goals and that they are appropriate in terms of strategy and price," Mr Walter said. Dresdner also intended to increase its business in the Asia-Pacific region, though this would be achieved through internal expansion.
Andrew Fisher, Frankfurt

US INVESTMENT TRUSTS

Opportunity for UK investors

UK investors could get the chance to participate in the booming US private equity market after the planned restructuring of an investment trust expected to be announced this week.

MCIT, the investment trust linked with the JZ investment group, one of the leading private equity groups in the US, is to replace its complex split capital structure of income and capital shares with a more simple capital structure comprising ordinary shares and long term debt capital. It is also expected to raise new equity from UK and US investors.

People close to the company say that one of the results of the long awaited restructuring will be to define MCIT as a venture capital investment trust, offering UK investors the ability to participate in the booming US private equity market. The company yesterday declined to comment.
William Lewis, New York

RUSSIA

Official reassurance on UES

Russian officials over the weekend sought to reassure foreign investors that their shareholdings in Unified Energy Systems (UES), the Russian national power company, would not be jeopardised by a new, restrictive parliamentary law.

Sergei Kiriyenko, prime minister, and Anatoly Chubais, chief executive of UES, promised the government would protect the rights of foreign owners of UES stock and urged them not to "give in to panic". The UES share price and Russia's stockmarket as a whole has been battered by the new law, which caps foreign ownership of UES at 25 per cent. It is estimated that foreigners currently own up to 30 per cent of UES. The new law is unclear on how the foreign stake should be reduced to the 25 per cent ceiling, causing investors to worry.
Chrystia Freeland, Moscow

NEWS DIGEST

GLOBAL OFFERING

Strong retail demand for Cimpor cement sale

Portugal's small savers have placed orders for more than 150 times the 12.1m shares available to retail investors in a global offering of 25 per cent Cimpor, the country's biggest cement company, is to be concluded today. Because of the huge demand, the institutional offering is set to be cut from 7m shares to 3.4m. Both the Portuguese and international institutional tranches are also several times subscribed, according to officials. The secondary offering, worth Es139.3bn ($763m), will reduce state ownership of Cimpor from 35 to 10 per cent.

Analysts say the strong retail demand for Cimpor reflects pent-up pressure to move savings out of bank deposits into equity following a sharp drop in interest rates over the past two years. Heavy retail demand is also expected for a secondary global offering of up to 15.5 per cent of Electricidade de Portugal, the national power utility, approved by the government on Friday. The sale, worth Es427.3bn ($2.3bn) at market prices, follows an initial public offer of 30 per cent of EdP last June.

■ **Portugal Telecom** has reported a consolidated net profit of Es19.2bn ($105.4m) for the first quarter and total revenue of Es137bn. **Peter Wise, Lisbon**

HUNGARY

Mol rises 38%

Hungarian oil and gas company Mol had first-quarter net income of Ft 17.6bn ($84.5m), 38 per cent up on the corresponding period for 1997. Earnings per share rose from Ft 132 to Ft 181. Sales were up 3 per cent to Ft 174.5bn, but fell almost $91m, or 10 per cent in dollar terms to $837.5m.

As a result of the warm winter, natural gas sales were down 8 per cent in volume terms, but owing to changes in pricing and taxation, the gas sector was profitable though still short of the 8 per cent return on costs, Zoltan Mandoki, chief executive, said. Operating profits at the refining and marketing division rose strongly, from Ft 1.3bn in the first quarter of 1997 to Ft 5.6bn, helped by growth in the sales volumes of motor fuels, up 6 per cent, and fuel oils, up 27 per cent on the domestic market. **Kester Eddy, Budapest**

ITALY

Iri gives Alitalia details

Iri, the Italian state holding company, has announced details of its planned sale of shares in Alitalia, the national carrier, in a private placement to institutional investors that will raise L790bn ($450m). At a board meeting on Saturday, Iri agreed to offer 27.6m shares to institutional investors at a price of L28,500 per share. This is at a discount to the closing price for Alitalia shares on Friday night of L29,666.

Iri announced after the meeting that 60 per cent of the shares would be placed with Italian investors and the remainder with international institutions, the majority of whom are from the UK and US. The operation involves the sale of shares equivalent to 18.4 per cent of Alitalia's capital, bringing Iri's stake in the airline down to 67 per cent.

In the second half of next month, Iri will complete the second stage of its intended sale of shares in Alitalia, with an offer to employees of the airline. This is intended to bring Iri's stake down even further to 53 per cent. Iri's announcement comes ahead of Alitalia's move today to offer shares in a planned L3,000bn capital increase. **James Blitz, Rome**

Saga cuts costs as oil income dips 30%

By Tim Burt in Stockholm

Saga Petroleum, Norway's largest independent oil producer, has unveiled a far-reaching cost-cutting programme and management overhaul following a four-month strategic review by its new chief executive.

Diderik Schnitler – head-hunted last year from Kvaerner, the Anglo-Norwegian engineering and construction group – said Saga had to streamline its operations after seeing income from oil exploration and production fall 30 per cent last year.

Mr Schnitler, who officially succeeded Asbjorn Larsen as Saga chief executive yesterday, has drawn up plans to sell or swap some of its 100 exploration licences and outsource non-core administrative activities.

The move follows a sharp fall in oil prices, higher-than-expected exploration costs and disappointing production yields from some of Saga's off-shore fields.

"We have come to some sort of standstill and we now have to face it," said Mr Schnitler, who emphasised that Saga's problems were shared by other oil companies in Norway – the world's second largest oil exporter after Saudi Arabia.

While praising Mr Larsen, Mr Schnitler said the company needed a more effective and focused management.

The executive management committee is to be halved, with directors Bjorn Solheim and Arild Unneberg being given "other central tasks" in the company.

"We are not saying that those who are stepping down are not important. They have serious work to do."

Mr Schnitler warned that 1998 would be a bad year for oil exploration and production companies, although he predicted higher oil prices and fewer production problems in the longer term.

Last year, pre-tax profits at Saga dropped from NKr1.23bn to NKr931m ($124m), even though revenues rose from NKr7.66bn to NKr9.19bn.

Battle-scarred Allianz chief ready for European fray

German insurer has ambitions of becoming a global business, write **Christopher Adams and Andrew Fisher**

From a quiet and leafy district of Munich, Henning Schulte-Noelle has begun to extend the reach of Germany's biggest insurer in neighbouring European markets. "Size isn't everything," he says. "But if you're one of the leading players, you've a much better chance to influence developments than become a victim."

Mr Schulte-Noelle likes a good contest: a scar on his left cheek bears witness to a duel he fought while a student at university.

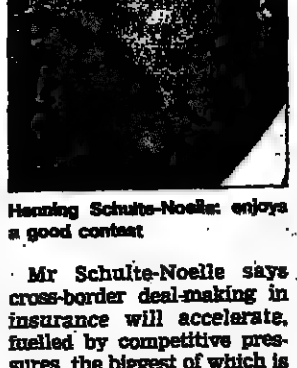
As chairman of Allianz, though, he has displayed greater caution. A potential and costly bid battle with Generali, the Italian insurer, for control of Assurances Générales de France was avoided when the companies negotiated a deal that gave AGF to Allianz in return for some of the combined group's interests.

Increased competition and the approach of European monetary union has sparked an unprecedented struggle for market share among the continent's biggest insurers. A rush of mergers and acquisitions has begun to reshape an industry characterised for decades by national champions with a tight grip on local markets.

With assets under management of DM480bn ($269bn) and premium income of DM110bn, Allianz is emerging as one of only a few European companies capable of dominating a single market in insurance. It derives about 60 per cent of total premiums from non-life business and 40 per cent from life and health.

The DM9bn acquisition of AGF places Allianz among the top five insurers in each of France, Spain, Belgium and Ireland. The group already had a 15 per cent share of the Italian market and 14 per cent of non-life business in Switzerland.

But it will need to make further acquisitions to fuel its ambitions of building a global business. Analysts say it lacks an international fund management operation capable of competing on level terms with Axa of France and Switzerland's Zurich. It could also benefit from a more substantial presence in UK life assurance, where declining state welfare benefits for old age and ill health should benefit the private sector.



Henning Schulte-Noelle: enjoys a good contest

Mr Schulte-Noelle says cross-border deal-making in insurance will accelerate, fuelled by competitive pressures, the biggest of which is the onslaught by banks able to use their retail branch network and asset management skills to market investment products.

On its own, he says, monetary union does not eliminate the main barriers to cross-border sales of products like life assurance and pensions. The different legal and tax regimes of countries are still a hindrance.

But European Union directives aimed at liberalising insurance markets have begun to have an effect. Fixed tariff structures have been abolished and companies are allowed to operate across the continent under the rules and supervision of their home countries. Prices are becoming more volatile and companies are seeking to cut costs.

"The euro will give a strong stimulus to the convergence of tax and legal systems," he says. "Companies that persist with a national attitude won't be able to resist in the long run."

But while he acknowledges the value of distribution links with banks, Mr Schulte-Noelle draws the line at Allianz itself taking a majority stake in any of the banks with which it has long-standing ties. He is wary of "bancassurance" tie-ups that go beyond distribution agreements. "To become a fully integrated financial concern on a global basis is out of reach of anybody, at least for the moment. The management resources are not there."

Yet Allianz's bank holdings, such as its 22 per cent of Dresdner Bank – with which it is negotiating an asset management tie-up – do put the insurer in a strong position to influence changes in the financial services sector. "The charm of this situation is that it leaves all strategic options open for us."

He says the group would be interested in strengthening its position in UK insurance. "Given the concentration among the big players in that market, we are not in a position we would feel comfortable with over the medium to long term." Following its entry into the Philippines life assurance market last month, Allianz is also seeking opportunities in Malaysia and Vietnam.

For now, though, the group is likely to concentrate on integrating AGF. It announced last week that its own Spanish operations would be merged with those of AGF and Athena, the French insurer subsumed into the group as a result of the purchase by AGF of Worms et Cie.

There will be cost savings. The group is aiming for a net return on its AGF investment of 9 per cent by 2000.

GOVERNMENT BONDS JAPANESE YIELDS PLUNGE AS FEAR OF DEFLATION DRIVES BUYERS TO SEEK REFUGE

Sceptical investors pour into JGBs

By Gillian Tett in Tokyo

Is Japan's bond market in a bubble? That is one key question hanging over the Tokyo financial world.

For while leaders of the G8 industrial nations worry about the record equity prices being recorded in the US, on the other side of the Pacific another striking market surge is under way – in Japanese government bonds.

On Friday the yield on the 182 contract plunged to touch 1.285 per cent, a new record low. This contract is used as the 10-year benchmark (though, in a confusing Japanese quirk, it expires in seven years time.)

The yield later closed at 1.290 per cent, but even this is well below previous global lows – the 1.85 per cent yield recorded in the US in 1941. And yields have now tumbled some 30 basis points in three weeks.

Some government officials insist this cannot continue. On Friday, the Economic Planning Agency declared that bond prices should soon fall, once the market "understands" the recently announced Y16,700bn ($125bn) stimulus package. "When the effects emerge I am confident the bond market will change its perception," Koji Omi, EPA head, said.

But few Japanese institutions appear to agree. One reason is that government funds, for example, remain committed bond buyers.

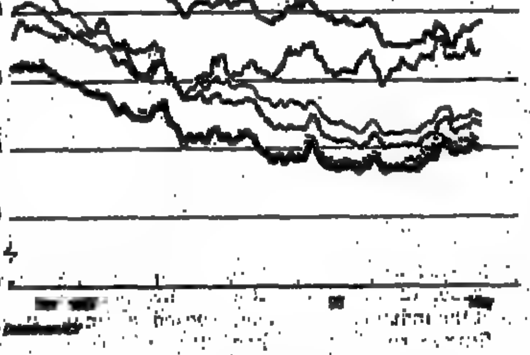
Kenji Ogata, deputy director of the Postal Savings bureau, for example, says his group plans to buy Y2,000bn of the Y6,000bn bonds the government will issue to support its stimulus package. The Ministry of Finance's Trust Fund bureau has indicated it will buy another Y2,000bn. This means that the new stimulus package will only leave around Y2,000bn to be absorbed by the markets.

Meanwhile, Japanese investors, who own more than 90 per cent of the Y250,000bn JGB market, are active buyers. Two weeks ago, the city banks, which tend to be trendsetters, reportedly increased their purchases of JGBs. On Friday a big life insurance group bought Y300bn of 20-year bonds, traders report.

"This is a pretty convincing sign that Japanese investors do not believe their own government when it says that bond prices will fall," said one trader.

This scepticism partly reflects a new debate erupting about the direction of monetary policy. Since the autumn of 1995 rates have been kept on hold at a record 0.5 per cent. But the Bank of Japan's newly independent policy board meets tomorrow.

10-year benchmark bond yields



Source: Datastream/ICV

Some board members want a cut later this year if the economy worsens. And though a reduction still seems unlikely, it cannot be discounted.

But the main reason for the bond price surge is a fear that Japan could be heading for deflation. Wholesale prices dropped 2.7 per cent in the year to April, and are expected to fall further in coming months as the impact of the Asian turmoil and weak yen feeds through.

Thus far, retail price inflation has stayed positive, running at around 2 per cent in recent months. But this largely reflects an increase in the consumption tax from 3 per cent to 5 per cent last spring. This drops out of the data in April.

Consequently, when wholesale price deflation feeds through to the consumer after a few months, retail price inflation could turn negative this summer as well.

Given this, yields as low as 1 per cent no longer look crazy, some investors argue. For a Japanese institution can find few returns in domestic equities.

Some companies are moving overseas instead: net purchases of non-yen bonds, for example, reached Y2,800bn in April. But many institutional investors are still reluctant to hold more than 20 per cent weighting in non-yen instruments because of the currency risk.

As William Campbell of JP Morgan says: "JGB's are a terrible investment. But the problem is that everything else is worse."

The EPA disagrees: deflation, it insists, is not a feasible prospect because the stimulus package will start to boost demand this autumn. But though most observers believe it will stave off an outright recession, few expect to see a sustainable surge in growth.

As Luke Katayama of Nomura Asset Management argues: "The latest package is unlikely to raise growth above 1 per cent, so I think yields should stay low."

If he is wrong, the implications would be painful: a sudden crash in the market would deliver a severe blow to Japan's institutional investors, particularly the banks who have growing exposure to JGBs.

But right now, this scenario is not worrying most investors. Bond yields of 1.29 per cent, in other words, may look bizarre. But they could get more bizarre yet.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Jefferson Smurfit (Ireland)	Stone Container (US)	Packaging	$2.3bn	Merging US ops
CVC\Citiven (UK)	Unit of KNP BT (N'lands)	Packaging	$1.65bn	Venture record
Robeco (N'lands)	WPG (US)	Fin services	$575m	Market entry
Airtours (UK)	FTI (Germany)	Leisure	$516m	Initial 29%
Alpharma (US)	Cox (UK/Int'l)	Pharmaceuticals	$200m	Hoechst sale
Esprit Telecom (UK)	Plusnet (Germany)	Telecoms	$180m	Performance link
Pentair (US)	Vero (UK)	Cable equipment	$169m	Plug pulled
Desc (Mexico)	ASF (US)	Food	$142m	Authentic offer
Banco Santander (Spain)	AFP Summa (Chile)	Fin services	$105m	Pension move
Banco Santander (Spain)	Seguros El Roble (Chile)	Fin services	$80m	Blocking buy

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, May 15, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7739.41	4750.00	2668.44	3542.68
Albania	(Lek)	254.393	156.500	87.8523	116.721
Algeria	(Dinar)	95.3957	58.1455	33.2017	44.1121
Andorra	(French Fr)	9.7354	5.9750	3.3541	4.4563
	(Sp Peseta)	246.317	151.175	84.8630	112.750
Gibraltar	(Gib £)	1	0.6137	0.3446	0.4577
Greece	(Drachma)	502.101	308.160	172.998	229.833
Greenland	(Danish Krone)	11.0540	6.7843	3.8084	5.0599
Grenada	(E Carib $)	4.3993	2.7000	1.5157	2.0137
Guadeloupe	(French Fr)	9.7354	5.9750	3.3541	4.4563
Pakistan	(Pak. Rupee)	71.8766	44.1150	24.7642	32.9020
Panama	(Balboa)	1.6294	1	0.5614	0.7458
Papua New Guinea	(Kina)	3.3402	2.0500	1.1509	1.5291
Paraguay	(Guarani)	4350.38	2670.00	1498.92	1991.35
Peru	(New Sol)	4.6282	2.8405	1.5945	2.1185
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COMPANIES & FINANCE

EMERGING MARKETS CIVIL STRIFE HAS WIDER IMPLICATIONS AND SHOWS ASIAN TURMOIL HAS YET TO END

Indonesia evokes spectre of crisis

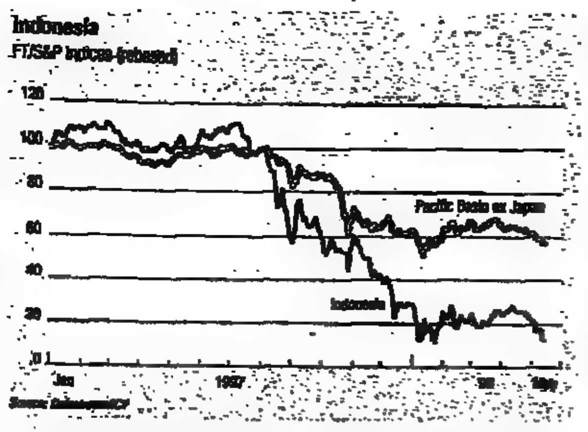
By Philip Coggan, Markets Editor

The rioting and political unrest that have swept Indonesia over the past few days are exactly the kind of conditions that send foreign investors heading for the exit.

The currency crisis that hit the rupiah last year and the tortuous negotiations with the International Monetary Fund on a reform programme, had already prompted many investors to slash their holdings in the country. The FT/S&P Indonesia index has dropped 54.1 per cent in dollar terms since the start of this year and by nearly 87 per cent since the beginning of 1997. Companies linked to the ruling family have been particularly hard hit recently.

With President Suharto under pressure to step down, shops and offices being looted and foreign embassies advising their nationals to leave the country, even the most adventurous speculator would think twice about buying Indonesian stocks.

"There is absolutely no foreign interest in getting into the market," says Geoffrey Dennis, global emerging market equity strategist at Deutsche Morgan Grenfell, while Fiona Hathorn, head of far eastern equities at Hill Samuel Asset Management, says: "We are not touching Indonesia with a barge-pole at the moment."



The overthrow of Suharto would not guarantee a return of confidence. After all, the initial reason for many of the protests was the price rises imposed as part of the IMF agreement; an incoming regime would be likely to come under great internal pressure to abandon elements of the reform programme.

And a new government would still have to deal with the weakness of the financial system. According to Mr Dennis: "The equity market may rally in the short term on a political transition but the problems are not just political."

The bigger worry for international investors is that Indonesia's problems could spread to the rest of the region. The countries most immediately affected are the neighbours Malaysia and Singapore, which have strong economic links with Indonesia and potentially face an influx of refugees and disruption of trade. The Singapore market dropped 6.8 per cent last week, while Malaysia fell 2.4 per cent.

More broadly, the prospect of political breakdown in Indonesia creates the possibility of default on its overseas debts – an outcome which would drastically hit sentiment towards the region.

"If Indonesia defaults, then banks will demand a risk premium from Korea, Thailand and Malaysia," says Arnab Banerji, chief investment officer of Foreign & Colonial. "Currencies will fall, interest rates will rise and equities will be hit."

Indonesia's problems, and renewed talk of the possibility of a Chinese devaluation, has prompted a market setback. The FT/S&P Pacific Basin index has already lost all, and more, of the gains made in the first part of the year. It is gradually becoming clear that the problems of Asia will take a long time to sort out and that political and financial weaknesses may delay the kind of export-driven rebound on which optimists were counting at the start of the year.

"The psychology of investors this year is that they have had blind faith in an Asian turnround, but this crisis could remove the scales from their eyes," says Edmond Warner, global strategist at BT Alex Brown. "Markets could retest the lows seen in the fourth quarter of 1997."

Albert Edwards of Dresdner Kleinwort Benson takes a similar view. "It is always dangerous to participate in a liquidity-driven rally, for when the music stops, investors refocus on the fundamentals. In Asia, the music has stopped."

But one or two investors are starting to take the view that the sharp market falls have created profitable opportunities. "Negative sentiment has hit prices in south-east Asia, and we are prepared to buy in at these levels," says Hill Samuel's Hathorn. "They could fall further but it is difficult to pick the absolute bottom and we can take a 12 month to two year view."

Singapore Air advance masks Asian turmoil

By Sheila McNulty in Singapore

Singapore Airlines reported a 0.3 per cent increase in group profit to S$1.04bn (US$634m) for the year ended March 31. But the results included the period before the regional crisis took hold, making the national carrier appear to be doing better than it was.

"The billion dollar profit, due largely to a good first half, masks the effect of the Asian economic turbulence," said Cheong Choong Kong, deputy chairman and chief executive officer.

Singapore Airlines, like most regional carriers, has been hit hard by the crisis. Analysts expect poor airline results from across the region as the booming business and tourist travel that characterised east Asia in recent years recedes.

Singapore Airlines' capacity rose 7.6 per cent in the financial year. But traffic grew at a lower rate of 5.5 per cent, and overall load factor fell 1.4 percentage points to 69.1 per cent.

Passenger seat use fell 3.9 percentage points to 70.5 per cent. Singapore Airlines said the outlook for passenger traffic this financial year is poor, with outbound traffic from Korea, Japan and several south-east Asian countries expected to shrink. It has cut the frequency of flights to Jakarta, Surabaya and Kuala Lumpur.

The national carrier is using smaller aircraft on some flights to Seoul, Hong Kong, and Bangkok. To offset those measures, it is deploying more capacity to Europe, the US, Australia and the Indian subcontinent.

Singapore Airlines has intensified its marketing and promotions and offered up to 30 per cent discounts on some flights.

Its cargo load factor grew 0.4 percentage points to 68.9 per cent in the financial year just ended. Cargo capacity in this new financial year is budgeted to rise 6 per cent but growth prospects are mixed.

Exports from much of Asia are expected to be strong, as depreciating currencies make goods denominated in them more attractive abroad, but imports from Europe and the US are expected to slow as consumer spending falls in Asia.

"We expect the very difficult operating environment, which descended on us in November last year, causing passenger loads and fares to fall, to continue well into 1998 and possibly beyond," Mr Cheong said.

Singapore Airlines proposed a final dividend of 15 cents a share, bringing the year's total dividend to 22.5 cents a share. That is 7.5 percentage points lower than the year-earlier period, when a 7.5 per cent bonus dividend was declared to commemorate the company's 50th anniversary.

Downturn hits Japan's life assurance groups

By Gillian Tett in Tokyo

The amount of group life assurance policies managed by Japan's 43 life assurance companies fell 25 per cent in the 11 months to February, it has emerged.

The fall, which was largely caused by corporate clients cancelling contracts, is the first big drop recorded in the sector in recent decades.

Consequently, it highlights the business pressures operating on the country's life assurance industry, as Japan's Big Bang deregulation gets under way.

The decline will fuel expectations that some life assurance companies will report dismal results when they announce their earnings figures in the summer.

Unease about the financial health of the sector has risen since Nissan Mutual became the first Japanese life assurance group to collapse since the second world war. In particular, many companies are being squeezed because their liabilities are very high, but income from premiums and investment has been falling.

The companies have traditionally drawn premium income by offering group and individual clients two main products. One is life assurance cover which protects company employees or individuals against the risk of death or injury. The other is an "annuity" scheme, similar to a pension scheme.

However, data from the life assurance industry association shows that in the 11 months to February 1998 the value of group life assurance policies in force, which represents the total theoretical value of all potential claims, fell by Y146,554bn to Y437,960bn ($3,266bn). The number of contracts fell 17 per cent to 84,628bn. Individual life assurance cover fell 1.5 per cent to Y1,468,070bn.

One reason for the drop is companies no longer feel they can afford to provide such generous life assurance cover for their employees, industry officials say.

However, the decline also reflects growing competition. A number of non-Japanese companies are scrambling to enter the sector.

The impact of the decline on business revenues is not clear, since corporate reporting in the sector is patchy. But although life assurance policies have traditionally provided lower premiums than annuity schemes, the decline will hurt earnings, analysts say.

Meanwhile, the industry data shows annuity schemes have been declining. Group annuities in force fell 1.5 per cent in the first 10 months of fiscal 1997. Individual annuities fell 3.9 per cent.

Baht gain hurts Thai groups

By Ted Bardacke in Bangkok

Listed Thai electronics exporters, a small but important part of the country's stock market, saw strong first-quarter operating profits masked by huge gains or losses resulting from an appreciating baht.

Unlike leading Thai manufacturers – which have domestic revenue but debts in foreign currency, and thus gain from a stronger baht – exporters see their baht revenue, margins and competitive position eroded when the baht gains. From January to March this year, the baht appreciated 17 per cent.

Delta Electronics, an exporter of computer monitors and other peripherals, saw net profits plunge 65 per cent year on year in the first quarter to Bt104m ($2.7m). Although sales increased in both baht and dollar terms, the company was forced to report Bt748m of foreign exchange losses on dollar receivables and cash.

With little debt, the company was not able to claim gains on dollar-denominated loans and thus is largely dependent on the direction of the baht for its fortunes.

Indosuez W.I. Carr Union Securities recently reported that corporate earnings for the full year could be 40 per cent lower than the forecast Bt4.26bn if the baht stayed around 40 to the US dollar rather than reaching the broker's estimate of Bt48.25 to the dollar at the year-end.

KCE Electronics, a maker of printed circuit boards, said its net profits in the first quarter increased almost 700 per cent year on year to Bt361m. With high foreign debt, the company was able to revalue its foreign loans downward in baht terms, creating a huge extraordinary, although unrealised, gain.

Hana Microelectronics, an assembler of integrated circuits and other electronic components, said first-quarter net profits increased more than three-fold to Bt358m. More than 50 per cent of profits came from the operations of its Hong Kong subsidiary, which has been unaffected by the baht devaluation and subsequent appreciation.

Because of its dollar sales and worldwide market, Hana loses operating profits every time the baht rises against the dollar. However, with dollar liabilities of roughly $50m, its unrealised foreign exchange gains also rise with a strengthening baht.

Indosuez W.I. Carr Union Securities notes that the company's valuations differ only slightly whether the baht is at Bt40, Bt45 or Bt48 to the dollar.

NEWS DIGEST

POWER

Asia crisis behind M$2.1bn loss at Tenaga

Tenaga Nasional, Malaysia's national power utility, reported a net loss of M$2.1bn (US$561m) for the half-year ended February 28, swinging from a net profit of M$511m in the year-earlier period. The company has made no pretences about the damage the regional financial crisis was doing to its bottom line, so analysts were not surprised by the results.

Ahmad Tajuddin Ali, Tenaga executive chairman, told reporters in Kuala Lumpur that the sharp depreciation in the ringgit was largely to blame as it made it more expensive to pay the company's foreign loans. Tenaga reported foreign exchange losses of M$2.47bn, against profits of M$118m.

But Mr Ahmad Tajuddin said demand was expected to grow 9 per cent this financial year and would offset the impact of the weaker ringgit if the currency stayed at present levels. "Our cashflow is healthy and we are able to meet all obligations," he said.

He expects Tenaga's capital expenditure to be M$4bn annually for the next three to four years. That is down from its previous projection of M$5.5bn for this year. The company achieved savings by deferring 72 power transmission and distribution projects to 2003, and removing a transmission line, which was to have linked the Bakun hydroelectric dam project – now on hold – with the national grid.
Sheila McNulty, Singapore

THAILAND

Oil producer posts 500% rise

PTT Exploration & Production (PTTEP), the listed subsidiary of state-owned oil company Petroleum Authority of Thailand (PTT), has announced that its net profit in the first quarter increased more than 500 per cent from a year earlier to Bt1.81bn ($46.6m). Much of that increase came from an unrealised foreign exchange gain of Bt2.74bn as the baht strengthened and the company has a large amount of foreign loans and expenses.

Operating results were also strong, although expenses grew faster than sales. Sales were up 61 per cent in the quarter to Bt2.27bn and expenses were up 105 per cent to Bt1.02bn. The company attributed its rise in expenses to increased costs associated with the expansion of the Bongkot field and the Malaysian-Thai Joint Development Area, along with interest expenses from Samurai bonds issued in the third quarter of last year.

PTTEP is in the middle of a capital raising programme to fund expansion. Some 16m new shares will be offered to Thai and international investors along with 16.5m shares that will be sold at the same time by the PTT.

■ **Electricity Generating**, the listed subsidiary of state-owned power company Electricity Generating Authority of Thailand, said its net profit in the first quarter increased more than 800 per cent to Bt3.78bn. Foreign exchange gains of Bt2.76bn also played a large part in that increase, although revenue also grew 38 per cent to Bt803m in the quarter with expenses rising only 19 per cent to Bt286m. Interest income on substantial cash holdings also increased.
Ted Bardacke, Bangkok

SINGAPORE

Budget telecoms service

Singapore Telecommunications, the national telecoms operator, said it will begin offering a budget, lower-grade international telephone service on a limited basis in June and the system will be fully available by year-end. The service is to provide cost savings of about 30 per cent on calls to 18 destinations with lower voice quality than the company's International Direct Dialing system. Initially, 5,000 users of its International Calling Card service will be eligible. Access will be widened in stages to other users of card services, direct-dial telephones and mobile telephones.

■ **Singapore Airlines**, the national carrier, said it will buy 10, wide-body, A340-500 aircraft from Airbus Industrie for US$2.2bn. The aircraft are for non-stop flights on long routes, such as from Singapore to Los Angeles. Such feats are beyond the capability of Singapore Airlines' present aircraft and will enable the carrier to expand its US operations. Deliveries will begin in 2002. **Sheila McNulty**

HONG KONG

Jardine to sell Optical Shop

Jardine Pacific, the trading arm of The Hong Kong-based Jardine group, is to sell its 40-branch The Optical Shop to OPSM Protector, the Australian eyewear company. The disposal, for an undisclosed sum, is the latest by Jardine Pacific, which in recent years has been shedding non-core businesses, including insurance activities. The Optical Shop, which has been owned by Jardines for the past decade, has stores in Hong Kong, China and Singapore. It employs some 200 staff and has a turnover of about HK$200m (US$25.8m).

OPSM Protector said the acquisition was in line with its strategy to leverage its skills as the region's leading optical retailer and expand into new markets.
Louise Lucas, Hong Kong

MARKETS WEEK

May 18 - May 24

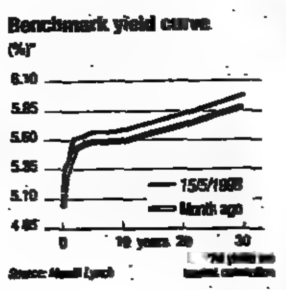
NEW YORK

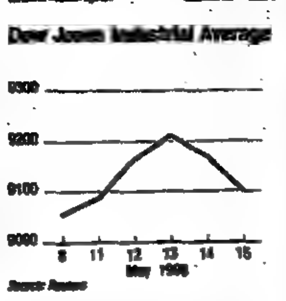
By Tracy Corrigan

US Treasury bonds are expected to continue to trade within a tight range ahead of Tuesday's meeting of Federal Reserve policy makers, amid concern that an interest rate rise is now likely. Although most analysts believe the Fed is unlikely to raise interest rates at this week's meeting, some believe that a rate rise at the next meeting, on July 1, could be on the cards.

Economists have been gradually adopting a more bearish position. Donaldson, Lufkin & Jenrette predicts a ¼ point rise in the Fed funds rate this year.

Last week's April consumer price data rose more than expected, when food and energy prices were excluded, due to factors such as accelerating housing costs. Market sentiment was also dampened by the heavy volume of corporate and municipal bond issues, as well as three-year and 10-year Treasury note auctions.





However, signs of further turmoil in Asia may make it harder for the Fed to raise rates, and drive a flight to quality, according to analysts. But economists at Chase Securities warn that developments "indicate that the risks remain skewed in the direction of a worsening [US] trade performance".

LONDON

By Steve Thompson

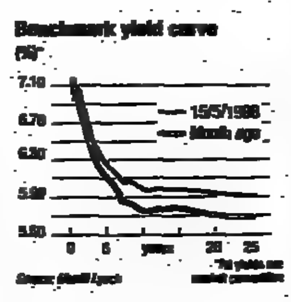
There is plenty of economic and corporate news to keep the London market occupied this week. Without doubt the main event in global terms is the meeting on Tuesday of the US Federal Reserve's open market committee, which will determine interest rates.

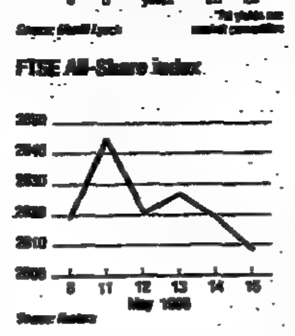
A move by the Fed to lift rates could well hit Wall Street and therefore upturn all markets.

Domestic economic news this week includes inflation data for April, due on Tuesday, expected to show headline inflation up 1 per cent on the month and 3.0 per cent over the year, with the underlying figure (targeted by the government) expected to come in up 2.8 per cent over the year to April.

Retail sales data for April are scheduled for Thursday; the consensus forecast is for a 0.5 per cent monthly increase.

On the corporate front, no fewer than 10 FTSE 100





constituents are due to report, while a long list of annual general meetings includes five Footsie stocks.

Worries about emerging inflationary pressures, in the form of higher than expected average earnings and unit wage costs, were behind a midweek wobble in the FTSE 100 last week.

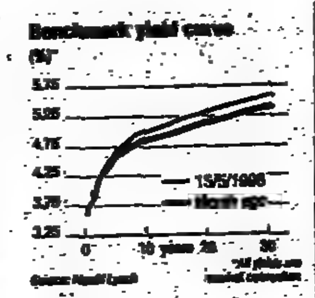
FRANKFURT

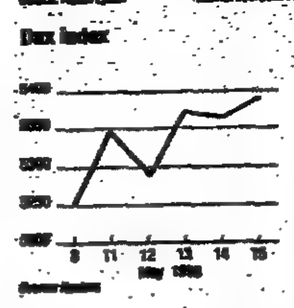
By Graham Bowley

The DAX index of the 30 biggest German companies closed up 33.5 points at the close of electronic trading on Friday at 5,407.6, back near to its April peak. Ian Scott, analyst at Lehman Brothers in London, said signs that conditions in the German labour market were at last improving were set to boost consumer-related stocks.

However, he was more cautious about the German stock market in general because of the strong gains already made.

Investors this week will concentrate on news from the US where the FOMC will be deliberating the future course of US interest rates. On the corporate front, Preussag Stahl – which has been renamed Salzgitter – will give details of its stock market flotation today. The former steel division of conglomerate Preussag was bought by the northern German state of Lower Saxony to stop it falling into foreign hands.





Viag will give details of its business at a press conference tomorrow. Bayerische Vereinsbank and Hypobank, the Bavarian banks that are merging, are due to publish their first-quarter figures, while Commerzbank will discuss its adoption of international accounting standards.

TOKYO

By Gillian Tett

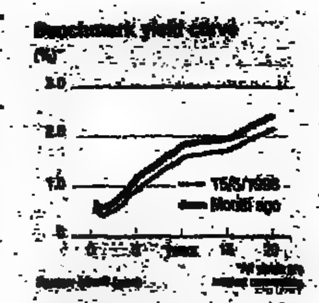
Tokyo stocks looks set for another lack-lustre week, after moving between a relatively narrow band during trading last week.

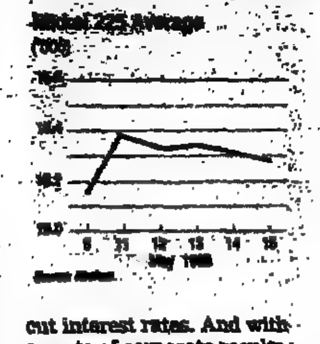
On Friday the Nikkei 225, the stock market index, closed at 15342.86, some 0.61 per cent higher than the close seven days earlier, after moving between 15380 and 15160 during the week.

This means that the index has now traded below 16,000 for some three weeks now, with little immediate prospect of a rally.

One factor dragging the market down is renewed concern about the economy and the threat of deflation. This pushed long term bond yields down to a record low of 1.285 per cent on Friday, as significant Japanese investors abandoned equities and moved their money into bonds instead.

There is little likelihood of this stance changing this week. A meeting of the Bank of Japan policy board on Tuesday appears unlikely to





cut interest rates. And with a spate of corporate results due this week, including those from the banks and construction sector, there could be more bad company news.

Meanwhile, the turmoil in Indonesia is dampening sentiment across the Asian region, including Japan.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
–	F.P.	28.0	103½	80¼	AB Airlines	97½	–3	–	–	–	–
–	F.P.	16.4	325	245	‡Abbotsbury Pub Co	245	–5	–	–	–	–
§	F.P.	–	104½	97½	Aberdeen Convertible C	104	+½	–	–	–	–
–	F.P.	–	62	[illegible]	[illegible]	61		–	–	–	–
[illegible]											
§100	F.P.	23.5	127½	118½	JAE Telecom	120½	–3	M1.54	3.0	1.9	29.2
–	F.P.	138.9	94½	72½	Lambo Alloy	87	–1	L2.3	4.2	3.3	8.9
–	F.P.	230.8	276½	272½	Mentor	275½		15.8	2.5	2.3	22.2
100	F.P.	38.0	97½	97½	Mossy VCT 3	97½		–	–	–	–
–	F.P.	–	138½	138½	Taiwan IT GDR	138½	–½	–	–	–	–
–	F.P.	–	35½	34½	Transport Dev B	35½		–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	May 15	% chg since 31/12/97	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1249.37	+17.2	38.34	100.00	1.94	–	1699.40	891.25
Regional Indices								
Africa (14)	1342.87	+21.5	9.31	25.76	4.02	29.76	1838.05	921.78
Australasia (7)	1419.14	+22.7	3.82	10.00	2.36	20.31	1801.01	933.63
North America (11)	1194.81	+14.7	23.22	64.24	1.05	46.19	1574.16	864.86

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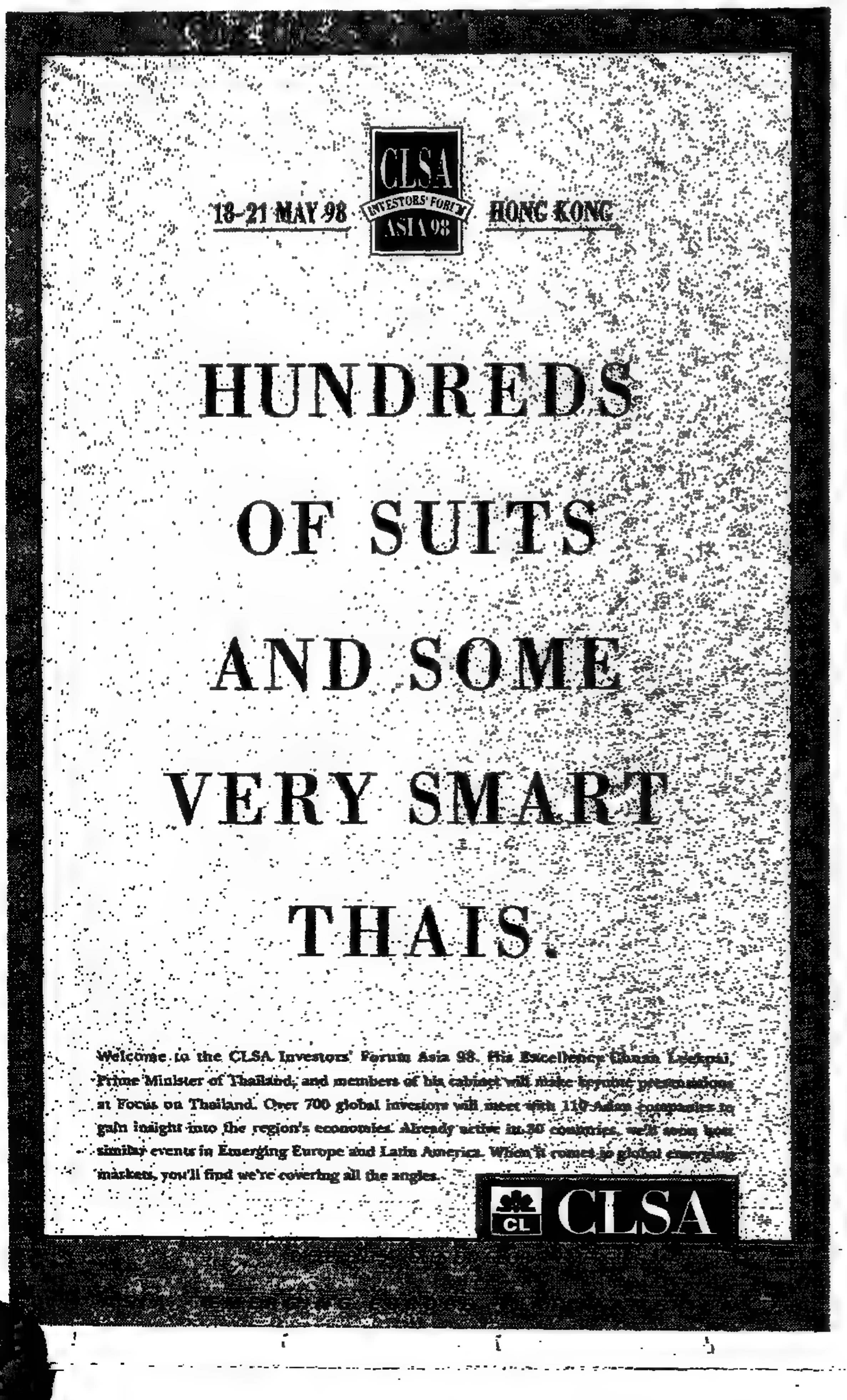
STOCK INDICES

	May 15	May 14	May 13	May 12	May 11	1998 High	1998 Low	Since comp. High	Since comp. Low
FTSE 100	5917.8	5948.5	5972.9	5956.7	6020.3	6105.8	5090.8	6105.8	986.9
FTSE 250	5797.8	5785.8	5788.9	5779.7	5772.4	5797.8	4789.2	5797.8	1379.4
FTSE 250 ex IT	5864.8	5850.8	5843.3	5833.9	5823.2	5864.8	4800.3	5864.9	1378.3
FTSE 350	2873.0	2884.8	2893.7	2888.5	2913.8	2923.3	2444.7	2948.4	684.5
FTSE SmallCap	2749.15	2749.18	2743.73	2738.15	2728.87	2749.18	2320.18	2749.16	1363.79
FTSE SmallCap ex IT	2749.92	2749.07	2743.91	2738.02	2728.75	[illegible]	2316.19	[illegible]	1363.79
FTSE All-Share	2809.46	2818.21	2827.00	2820.09	2844.40	2847.87	2389.32	2847.07	61.92
FTSE Fledgling	1477.31	1473.91	1468.29	1464.77	1458.58	1477.31	1285.77	1477.31	31.14
FTSE Eurotop 100	2812.32	2817.55	2821.92	2812.24	2836.89	[illegible]	2236.40	[illegible]	2044.47
FTSE Eurotop 300	1222.34	1225.00	1227.52	1224.48	1235.46	1283.65	971.53	1283.65	974.08
FT 30	3894.8	3905.5	3889.5	3898.7	3920.3	[illegible]	3235.4	[illegible]	49.4
FT Govt Securities	103.88	104.07	104.16	104.26	104.52	105.66	99.31	141.84	49.18
FT Fixed Interest	141.34	141.46	140.83	141.08	141.38	142.87	118.52	142.87	50.55
FTSE Gold Mines	1249.37	1224.39	1226.14	1258.27	1222.41	1281.57	[illegible]	[illegible]	909.02



COMPANIES DIARY

Consumer spending fall slows Matsushita

Matsushita Electric, the Japanese electronics and engineering company, is expected to report annual pre-tax profit of Y348bn-Y351bn on sales of Y7,850bn-Y7,870bn on Wednesday amid slower domestic consumer spending and weaker regional demand as a result of the currency crisis, analysts said.

The company forecasts pre-tax profit of Y351bn and revenue of Y7,870bn.

In the domestic market, sales of home appliances such as air conditioners fell substantially, particularly in the second half, because of weak consumer spending resulting from the successive failures of financial institutions, analysts said.

In offshore markets, earnings were affected by weak demand for home appliances in south-east Asia but received some support from sales of audio and visual products such as digital video recorders in the US and Europe, which remained strong, analysts said.

They said earnings were expected to remain weak for the year to March 1999, on soft demand in south-east Asia and the domestic market. However, there might be a modest improvement from the second half as domestic consumer spending recovers, analysts said. AFX-Asia, Tokyo

Pulling power: Sir Ian Prosser, chairman of Bass

● Nippon Telegraph and Telephone, Japan's dominant domestic telecommunications carrier, is expected on Friday to report pre-tax profit of Y553bn for the year to March, in line with the company's recent downgrade of its earnings forecast, analysts said.

They said the downgrade resulted from a cut in the company's long-distance tariffs which moderated revenue growth and profit margins.

The company recently cut its pre-tax profit forecast for the year to Y553bn from Y562bn, while cutting estimated revenue to Y9,570bn from Y9,580bn. The net profit forecast was also cut to Y263bn from Y268bn.

NTT said the February 1997 cut in long-distance tariffs sliced Y10bn off the year's revenue and had a direct impact on pre-tax profits.

In the year to March 1997, NTT reported pre-tax profit of Y444.5bn on revenue of Y8,520bn.

NTT DoCoMo said recently it would announce an annual pre-tax profit of Y249bn on revenue of Y2,620bn. The previous year's pre-tax profit was Y183.3bn, achieved on revenue of Y1,960bn.

While NTT is expected to enjoy sustained earnings growth, led by its NTT DoCoMo unit, the focal point is the restructuring of its lossmaking personal handy phone operations, analysts said.

In early March, NTT said it would provide Y67bn in the year to March to help its PHS units write off accumulated losses.

NTT DoCoMo also said it would set aside Y36bn for the same reason, while sustaining a further Y7bn provision to write down capital losses on its investment in its PHS units. AFX-Asia, Tokyo

● Bass is the second of the UK's big three brewers to report, with interim pre-tax profits expected by Goldman Sachs to be up about 4 per cent at £324m. Investors will be looking for news on the reshaping of the group which has taken part in transactions worth more than £4bn in the past six months. Although it has now withdrawn from tenanted pubs, Bass, headed by Sir Ian Prosser, is a market leader in managed pubs and its comments on trading in the high street will be keenly studied.

● First-quarter figures from Royal & Sun Alliance, the UK's leading composite insurer, are expected to be hit by claims relating to bad weather that hit the UK and Canada in January. Analysts' forecasts range from £115m to £140m for pre-tax operating profit in the quarter, down from £195m for the same period last time.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Security Capital US Realty	350	May 2003	2.00	99.125	6.75	–	Goldman Sachs & Co
DePfa Bank	250	May 2001	6.00	99.788	6.082	[illegible]	Daiwa Europe
US Central Credit Union	350	May 2003	6.00	99.428R	6.135	[illegible]	Lehman Brothers Intl
Cibe Speciality Chemicals	300	May 2008	6.125	98.685R	6.280	[illegible]	JP Morgan Securities
CAF	200	May 2008	6.25	98.561R	6.857	[illegible]	Deutsche/Merrill Lynch
Merrill Lynch Intl Company	200	Jun 2002	zero	97.50	–	–	Merrill Lynch
Asian Development Bank	2bn	May 2003	5.75	99.248R	5.904	[illegible]	HSBC/Nomura/SBCW
[illegible]							
SWISS FRANCS							
Mest Hang Finance Finland	150	May 2005	[illegible]	102.15	–	–	CSFB
Toronto Dominion Bank	100	May 2001	[illegible]	100.00	–	–	Deutsche Bk(Schweiz)
Westland-Utrecht Hypot	215	May 2001	[illegible]	100.00	–	–	Deutsche Bk(Schweiz)
GECC	150	May 2002	2.25	100.75	–	–	SBC Warburg DR
PESETAS							
Landesbank Baden	10bn	Jun 2003	4.75	99.848	4.787	[illegible]	Banco Bilbao Vizcaya
[illegible]							

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Abbey National Treasury FRN 2002 £1880.58
Aire Valley Finance Class A2 FRN 2039 £1886.73
Do Class A3 FRN 2039 £1906.45
Do Class A4 FRN 2039 £1938.51
Do Class A5 FRN 2039 £2000.15
Alliance & Leicester 14.4p
Aoi Advertising Promotion FRN 1998 $3170.64
Aon Corpn $0.28
Arcolectric 0.772p
British Mohair 2.6p
Charter 22p
Courtaulds Textiles 10.1p
English & Overseas Props 0.15p
European Leisure 1.25p
Euro-Vip $36210.42
Hambros N/V 4.2p
Jardine Lloyd Thompson 5.5p
Kyushu Electric Power 7¼% Notes 2007 $72.50
Leslie Wise 0.5p
Mayflower Corpn 1.83p
McBride 2.5p
Nichols (Vimto) 5.2p
Nippon Telegraph & Telephone 6¾% Notes 2002 $67.50
Pall Corpn $0.155
Sandvik B Skr7
Secure Trust 16p
Standard Chartered Undated Prim Cap FRN $312.81
Tate & Lyle Intl 6⅞% Bds 2001 $68.75
Telefonica de Espana Pta82
Travis Perkins 7.7p
Treasury 10% 1999 £5
Universal Ceramic Mtls 3.7p

■ **TOMORROW**

Aberdeen High Income 2p
BTM Finance Bds 2004 $93750
Do Tranche B Bds 2004 $95000
Davis Service 7.6p
Dolphin Packaging 5.2p
Export-Import Bank of Japan 9¾% Bds 1999 $487.50
Hodder Headline 5p
Kleinwort Smlr Cos 1.3p
Korea Exchange FRN 2006 $7744.24
NatWest Notes 2008 $152.66
Norsk Hydro 9⅛% Notes 1998 Nkr7.50
Royal Dutch Petrlm Fl 1.80
Spintab 6% Bds 1998 $600
Do 9% Notes 1999 ECU900
Treasury 10½% 1999 £5.25
Yrityspankki Skop B VRN $160.69

■ **WEDNESDAY MAY 20**

Allied Leisure 0.35p
AVCO FRN 2000 £186.84
BASF Br DM2
Blue Circle Inds 6⅞% Bds 2002 £68.75
Caradon B 3.007813p
Caterpillar Inc $0.25
Cattles 6.55p
CMG 5.2p
Daiwa Overseas Fin Notes 2004 $9500
Edinburgh Fund Managers 17p
Fennica No1 BND 2025 $3085.17
Do Class B 2025 $3246.06
Do No2 BND 2024 FMk20777.80
Do 6.32% Class A2 2024 FMk31,600
Do Class B 2024 FMk22215.90
Fintrust Debenture 9¼% Deb 2023 £4.625
Hydro-Quebec 8⅝% Debs 2002 $431.25
INVESCO City & Commercial 3.35p
Jacobs 1.75p
Merchants Trust 3.75p
Merrill Lynch $0.24
Molins 8.5p
Perkins Foods 2.8p
Pilat Techs 1.2p
Portugal 9% 2016 £225
Royal Bk of Scotland FRN 2005 £92.96
Simon Group 0.64p
Stolt-Nielsen B $0.25
United Carriers 1.8p

■ **THURSDAY MAY 21**

Candover Invs 15p
Chase Manhattan Senior FRN 2002 $137.15
Delcam 0.9p
Downing Healthcare Prtcd VCT 2p
Fired Earth 2.3p
Glaxo Wellcome 20p
Mitsui OSK Lines Bds 1999 Y600000
Novara 3.91p
Peugot Finance Intl 8% Notes 1999 LuxFr4000
Shell ADR $0.7837
Taylor (C) 2.75p
Thistle Hotels 2.8p
Try Group 0.6p
Treasury 12½% 2003/05 £6.25
TT Group 5.54p

■ **FRIDAY MAY 22**

Ash & Lacy 4.8p
Barratt Devlpts 3.3p
BBA 5.6p
BNS Res 5.2p
Boxmore Intl 2.3p
BPH 3% Bds 2002 $15
Cadbury Schweppes 12.5p
Dean Corpn 0.4p
Donatantonio 1.65p
Dorling Kindersley 1.5p
Eaton $0.44
European Inv Bank 10⅜% 2004 £259.375
Export-Import Bank of Japan 8% Gtd Bds 2002 $400
Forth Ports 10p
Greggs 28p
Henderson Grd Inc & Gwth 1.7p
Home Counties Newspapers 3.5p
Irish Life I£9.3p
Irish Permanent I£10.7p
LGS Invs 4.375p
Lilleshall 3.15p
London & St Lawrence Inv 3.15p
Lopex 0.6p
Mallett 3.1p
Medeva 3.6p
Do ADR $0.2339
Mirror Group 3.5p
Murray Intl 4.55p
Murray Ventures 4p
Norcor 2p
Norish Units I£3p
Pressac 1.21p
Redrow 1.35p
Rutland Trust 4.25p
Salehurst 3p
Sinclair Montrose Hlthcare 0.2p
Slough Estates 2p
Sun Life & Prov 7.9p
Tokyo-Mitsubishi Tranche A FRN 2001 $14804.70
Do Tranche B FRN 1999 $14238.99
Unilever 5.82p
Unilever NV Fl 1.49
Wetherspoon JD 0.75p
Yorkshire Group 6.65p

■ **SATURDAY MAY 23**

Sunderland 11¾% Red 2008 £5.875
Trinidad & Tobago £6.125

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:
Fidelity European Values, 25, Lovat Lane, EC, 12.00
Lopex, Fitzalan Suite, The Howard Hotel, Temple Place, WC, 11.30
South Country Homes, Southwark Towers, 32, London Bridge Street, 11.00
Yorkshire Grp., Village Hotel, 186 Otley Rd., Headingley, Leeds, 2.00

BOARD MEETINGS:
Finals:
Fine Art Devlpts
Style Hldgs
Interims:
Cambridge Antibody Tech
Celltech
Diploma
Paragon
RM
UPF Group

■ **TOMORROW**

COMPANY MEETINGS:
Ash & Lacy, Botanical Gardens, Westbourne Road, Edgbaston, Birmingham, 10.30
Bostrom, Stone Circle Road, Round Spinney, Northampton, 12.00
Chelsfield, The Chelsfield Room, Royal Festival Hall, The South Bank Centre, 11.00
Clarkson (H), 12, Camomile Street, EC, 11.00
Edinburgh Fund Managers, Donaldson House, 97, Haymarket Terrace, Edinburgh, 12.15
Next, New Connaught Rooms, Great Queen Street, WC, 10.45
Slough Estates, The Abraham Lincoln Room, The Savoy Hotel, Strand, WC, 12.00
Wolstenholme Rink, Penny Farthing Suite, Last Drop Hotel, Bromley Cross, Bolton, 12.00

BOARD MEETINGS:
Finals:
British Energy
Marks & Spencer
Merchant Retail Group
Warnford Invs
Interims:
Berisford
Care UK
Compass Group
Enterprise Inns
Greenalls
Hozelock
Imperial Tobacco

■ **WEDNESDAY MAY 20**

COMPANY MEETINGS:
Astec (BSR), Skinner's Hall, 8½, Dowgate Hill, EC, 11.00
Brixton Estate, 22-24, Ely Place, EC, 12.00
Bunzl, The Cafe' Royal, 68, Regent Street, W, 11.00
Delphi, The Mayfair Inter-Continental Hotel, Stratton Street, W, 10.00
Home Counties Newspapers, Naval & Military Club, 94, Piccadilly, W, 10.30

BOARD MEETINGS:
Finals:
Blacks Leisure
Glenmorangie
Hoare Govett Smaller Co's
Hoare Govett 1000 Index
Land Securities
Photobition
Interims:
Baggeridge Brick
Majedie Invs
Young (H)

■ **THURSDAY MAY 21**

COMPANY MEETINGS:
Epwin, Mendip Suite, The Aztec Hotel, Aztec West Business Park, Almondsbury, Bristol, 12.00
First Russian Frontiers, 3, Finsbury Avenue, EC, 12.00
Park Estates, The Liverpool Moat House Hotel, Paradise Street, Liverpool, 12.30
Royal Doulton, Minton House, London Road, Stoke-on-Trent, Staffordshire, 12.00

BOARD MEETINGS:
Finals:
Creative Publishing
Exploration Co
PowerGen
Southnews
Storehouse
Interims:
Bass
Morgan Grenfell Equity

■ **FRIDAY MAY 22**

COMPANY MEETINGS:
Fleming Mercantile Inv, 25, Copthall Avenue, EC, 3.00
Ramco Energy The Marcliffe at Pitodels, North Deeside Road, Aberdeen, 12.30
Vero Grp., Electron Way, Chandlers Ford, Eastleigh, Hampshire, 12.30

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

CONFERENCES & EXHIBITIONS

LANGUAGE COURSES

CURRENCIES & MONEY

Fed rate rise fears

By Simon Kuper

For the first time in months, many investors think the Federal Reserve might raise US rates.

The bank's open market committee meets on Tuesday. Cary Leahey, chief US economist at High Frequency Economics in New York, puts the chance of an increase at one in three, but he has a gut feeling that the Fed might upset those odds.

On the face of it a rate rise seems unlikely.

US inflation is running at little more than 1 per cent a year, and average earnings growth, though climbing, has yet to frighten the Fed. Furthermore, with the Asian crisis rearing up again, the last thing the bank wants to do is wallop emerging markets with a rate rise.

However, Alan Greenspan, Fed chairman, has warned before about the stock market boom, yet it has gone merrily on. The US economy grew at more than 4 per cent in the first quarter, and the unemployment rate is rapidly falling towards 4 per cent. That must produce wage inflation one day, say many economists. The Fed will want to act before that happens.

A US rate rise, because it is not priced into the market, could upset stocks and bonds and thus damage the dollar. That happened in 1994. Yet if rates stay on hold, the dollar might fall too, as investors anticipate the day when German yields catch up with US levels.

In any case, the dollar starts the week vulnerable: it has been rallying against the yen and D-Mark despite threats that the Bank of Japan might intervene for its currency, and despite growing evidence that the European economies are accelerating. The dollar faces another test the day after the Fed's meeting, when the US trade deficit for March is revealed.

The D-Mark could benefit from more strong German economic data which is expected throughout the week.

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

POUND IN NEW YORK

May 15	—Close—	—Prev. close—
£ spot	1.6280	1.6310
1 mth	1.6235	1.6266
3 mth	1.6190	1.6240
1 yr	1.6025	1.6073

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies and Finance page in today's edition.

OTHER CURRENCIES

May 15	£	$
Czech Rp	52.7110 - 52.9104	32.3530 - 32.4690
Hungary	343.312 - 343.835	210.758 - 210.760
Iran	4889.10 - 4887.00	3000.00 - 3000.00
Kuwait	0.4981 - 0.4989	0.3056 - 0.3061
Peru	4.6247 - 4.6316	2.8390 - 2.8420
Poland	5.5548 - 5.5654	3.4100 - 3.4150
Russia	10.0548 - 10.0787	6.1785 - 6.1795
U.A.E.	5.9892 - 5.9958	3.6729 - 3.6730

BANK RETURN

The Bank Return table can be found on page 27 in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

BANK OF ENGLAND TREASURY BILL TENDER

BASE LENDING RATES

BENCHMARK GOVERNMENT BONDS

UK GILTS PRICES

CONTRACTS & TENDERS

EURO PRICES

EQUITIES

US and Asia make Europe jumpy

EUROPEAN OVERVIEW

By Simon Davies

The Federal Reserve open markets committee meets in the US tomorrow and although it is expected to keep interest rates on hold, there could be nervousness in European financial markets in advance, given the Fed's reputation for pre-emptive strikes.

As the Asian spotlight spread from Indian nuclear detonations and Jakarta riots to the Hong Kong and Tokyo financial markets, concerns spread through to Europe. Equities tailed off towards the end of the week and the core European bond markets gained from a shift into more defensive investments.

Trans-European equities fell on Friday, with the FTSE Eurotop 300 index losing 2.68 to close at 1,222.34. However, it finished 5.43 higher on the week.

The Eurotop 100 index fell 5.23 to 2,812.32 on Friday, representing a gain of 18.16 on the week.

Some European markets fared much worse, with the UK suffering from interest rate concerns, and the Russian stock market falling 16 per cent in the week.

Bond markets in mainland Europe moved mostly higher during the week, as Asia encouraged a flight to safety, and Bundesbank officials made comments suggesting the next interest rate increase was some way off. UK gilts had a bad week, and German bunds edged lower on Friday.

There was little corporate activity to drive the markets last week. The announcement by Philips that it is interested in selling its 75 per cent stake in entertainment subsidiary PolyGram underlined the potential for further restructuring, but there were few deals.

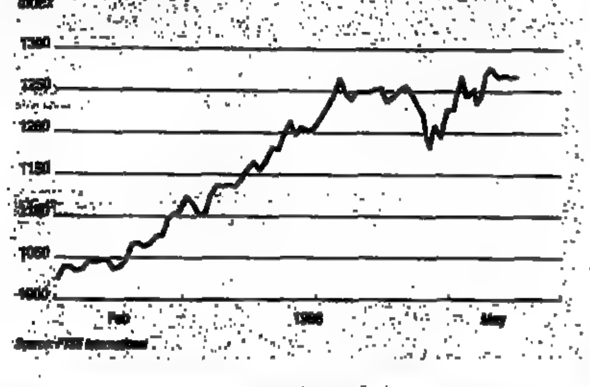
Indeed denials on Friday by Banca di Roma of rumours that it is to merge with Banca Commerciale Italiana sent Italian bank shares lower.

Financials was the only Eurotop sector to fall last week, declining by 1.3 per cent, due to concerns about fall-out from Asia, and the absence of the acquisition activity that had previously pushed the sector higher.

The strongest sector was resources, with oil E&P companies up sharply again on Friday after bullish research. The Eurotop resources sector was up 2.5 per cent on the week.

Eurotop 300 Eurobloc

Index



FTSE Actuaries Share Indices — European series

May 15

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total return (Ecu)
FTSE Eurotop 300	1222.34	−0.22	−2.68	1.95	11.25	1243.58
FTSE Eurotop 100	2812.32	−0.19	−5.23	2.01	9.88	986.63
FTSE Ebloc 100	1016.79	−0.01	−0.06	[illegible]	3.55	1020.39
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH EURO FUTURES (LIFFE)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX)

[illegible]	[illegible]

OTHER INDICES

[illegible]	[illegible]

CURRENCIES & MONEY

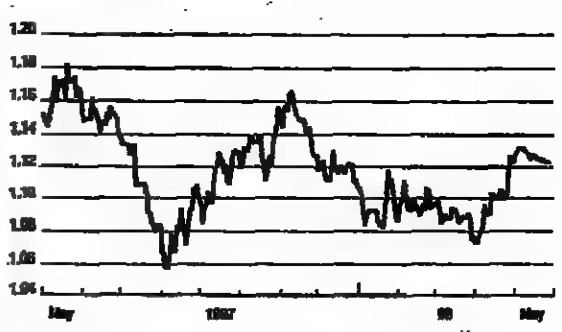
FT SYNTHETIC EURO RATES

May 15

	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.0[illegible]881	+0.0010	0.01	+0.0031	0.02
Belgium	BEF	41.250482	−0.0133	−0.03	+0.0167	0.04
Czech Republic	CZK	35.341884	−0.1732	−0.47	−0.4304	−1.22
Denmark	DKK	7.513439	−0.0012	−0.02	−0.0024	−0.03
Finland	FIM	6.075235	+0.0008	0.01	+0.0003	0.01
France	FRF	6.705248	+0.0007	0.01	+0.0021	0.03
Germany	DEM	1.999118	+0.0001	0.01	+0.0004	0.02
Greece	GRD	345.822474	−0.0703	−0.02	−2.3646	−0.68
Hungary	HUF	236.523734	−0.0834	−0.03	+0.0375	0.02
Ireland	IEP	0.792847	−0.0012	−0.15	−0.0029	−0.36
Italy	ITL	1971.118524	+0.2959	0.01	−0.3322	−0.02
Luxembourg	LUF	41.250482	−0.0133	−0.03	+0.0167	0.04
Netherlands	NLG	2.253076	+0.0005	0.02	+0.0008	0.03
Norway	NOK	8.400245	+0.0185	0.23	+0.0429	0.51
Poland	PLN	3.829596	+0.0051	0.13	+0.0182	0.50
Portugal	PTE	204.815874	+0.0148	0.01	−0.2793	−0.14
Romania	ROL	9533.235710	−13.0908	−0.14	−94.3733	−0.98
Russia	RUB	6.934181	+0.0349	0.49	+0.0141	0.20
Slovakia	SKK	38.480830	−0.0429	−0.11	−0.0860	−0.22
Spain	ESP	169.861199	[illegible]	−0.07	−0.1597	−0.09
Sweden	SEK	8.684593	+0.0328	0.38	+0.0985	1.15
Switzerland	CHF	1.662094	−0.0023	−0.14	−0.0073	−0.44
United Kingdom	GBP	0.669705	−0.0007	−0.11	−0.0018	−0.27
ECU	ECU	1.018045	−0.0001	−0.01	−0.0009	−0.09
Americas						
Brazil	BRL	1.299947	−0.0027	−0.21	−0.0069	−0.53
Canada	CAD	1.627889	−0.0005	−0.03	+0.0067	0.41
Mexico	MXN	9.553997	−0.0058	−0.06	−0.0273	−0.28
United States	USD	1.122217	−0.0021	−0.19	−0.0078	−0.69
Pacific/Middle East/Africa						
Australia	AUD	1.786965	−0.0027	−0.15	+0.0148	0.84
Hong Kong	HKD	8.695052	−0.0153	−0.18	−0.0619	−0.71
Japan	JPY	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore	SGD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa	ZAR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Synthetic Euro against the dollar

5 per ecu



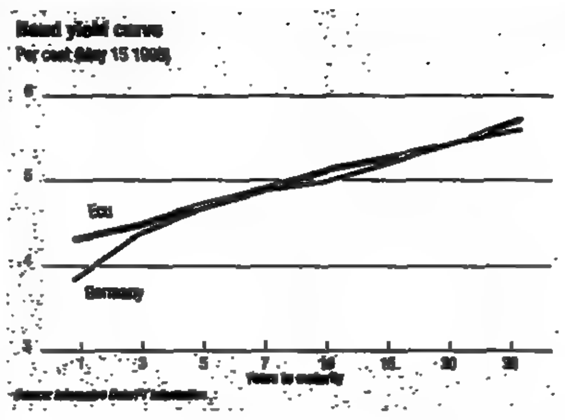
EUROZONE CURRENCY CONVERGENCE

[illegible]	[illegible]

BONDS

Bond yield curve

Per cent (May 15 1998)



EUROZONE CORPORATE BONDS

[illegible]	[illegible]

GOVERNMENT BOND SPREADS vs ECU

[illegible]	[illegible]

EUROZONE CREDIT SPREADS vs ECU

[illegible]	[illegible]

FTSE EUROTOP 300

[illegible]	[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Mkt cap£m	Last xd	City line
Allied Domecq	†	626½xd	..	024.73	1.7	6,513	11.5	1550
Bulmer (HP)	†	398	1.3	14.82	2.2	188.8	12.1	2065
Burn Stewart	†	29	-7.0	1.7	–	11.8	27.10	1518
Diageo	[illegible]	739xd	1.0	018.8	1.3	28,274	30.3	2791
Glenmorangie A	†	789	-.6	13.42	3.1	195.1	22.12	3257
B	†	[illegible]	-.6	6.71	3.1	38.1	22.12	3258
Highland	†	[illegible]	-1.3	8.0	2.3	413.2	5.5	2000
5¼pc Cv Sb Bd		97½	0.8	[illegible]	–	47.8	5.1	2823
Kirin Y		587½	11.5	[illegible]	–	5,973	23.6	1119
Matthew Clark	†	210	4.2	20.0	1.5	165.8	29.12	2159
Merrydown		47½	17.3	3.1	–	5.18	21.7	3352
Seagram C$		[illegible]	1.2	[illegible]	–	9,018	25.2	–

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov	Mkt cap£m	Last xd	City line
ABN Amro Fl		£14[illegible]	-1.6	[illegible]	2.2	20,887	9.97	1010
ANZ A$		419	-3.3	[illegible]	♦	6,247	12.95	–
Abbey National		1047	-5.9	30.7	2.1	14,784	3.3	5411
Alliance & Leicester		[illegible]	-4.5	20.8	2.4	4,636	14.4	[illegible]
Allied Irish I£		836	-.4	[illegible]	2.4	7,056	2.3	1354
Anglo Irish I£		173½	-1.1	[illegible]	2.4	587.1	1.12	1355
Asahi Y		284½	8.6	[illegible]	–	5,678	25.8	3848
Banco Bilbao Viz Pta		[illegible]	0.4	[illegible]	–	21,030	10.10	–
Banco Santander Pta		[illegible]	0.9	[illegible]	2.3	15,367	7.10	–
Bank Ireland I£		1220½	-2.0	[illegible]	♦	6,318	24.11	1260
Bank Scotland		[illegible]	-2.4	9.85	1.5	8,473	5.5	7782
9¾pc Ird Pf		153½xd	-1.0	9¾%	–	491.2	5.5	1682
9¾pc Ird Pf		162½xd	-.9	9¾%	–	162.2	5.5	1686

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Continued

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	Wk% chnge	Div net	Div cov	Mkt cap£m	Last xd	City line
Anglo Am Ind R	[illegible]	[illegible]	0.7	[illegible]	[illegible]	[illegible]	[illegible]	–
Barlow R	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–
Gold Flds Prop R	[illegible]	[illegible]	0.7	[illegible]	1.2	[illegible]	1.5	–
SA Breweries R	[illegible]	[illegible]	-1.9	[illegible]	[illegible]	[illegible]	1.12	–
Standard Bank R	[illegible]	[illegible]	0.7	[illegible]	–	[illegible]	[illegible]	–
Tiger Oats	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–
Tongaat-Hulett R	[illegible]	[illegible]	[illegible]	[illegible]	2.7	[illegible]	[illegible]	–

TRADED INDEX SECURITIES

	Notes	Price	Wk% chnge	Div net	Div cov	Mkt cap£m	Last xd	City line
FTSE 100 TRAINS		[illegible]	—	–	–	–	24.11	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these stocks are now traded on the Stock Exchange Electronic Trading System ("SETS").

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(3)(v) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below.
- Rule 4.2(a) Irish Incorporated non-listed companies.
- Price at time of suspension
- Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- Merger bid or reorganisation in progress.
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.

z Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1998-99. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1999. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend, cover based on latest annual earnings.

M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: ex dividend; ex scrip issue; ex rights; ex all; ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: ARM Hldgs (E&EE), Guinness Flight VCT 88 (InCo). Deletions: An Feng Kingstream, Gencle Consolidated (Ext), Lister (HseG), GST Grp (Med), AHD Intl Pub, Moltak (AIM).

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For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls are charged at 50p per minute at all times. An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial information obtained via FT Cityline before making any investment decision. All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

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BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

هكذا أمن الإجل

Offshore Funds and Insurances

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Premier Life

Professional Investment Consultants

Royal & Sun Alliance Intl Financial Services

OTHER OFFSHORE FUNDS

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 15 / Sch)

BELGIUM/LUXEMBOURG (May 15 / Frs.)

CZECH REP (May 15 / Koruna)

DENMARK (May 15 / Kr)

FINLAND (May 15 / Mka)

FRANCE (May 15 / Frs.)

GERMANY (May 15 / DM)

GREECE (May 15 / Drachma)

ITALY (May 15 / Lira)

NETHERLANDS (May 15 / Fl.)

NORWAY (May 15 / Kroner)

POLAND (May 15 / Zloty)

PORTUGAL (May 15 / Escudo)

SPAIN (May 15 / Pta.)

SWEDEN (May 15 / Kronor)

SWITZERLAND (May 15 / Fr.)

TURKEY (May 15 / Tk Lira)

PACIFIC

JAPAN (May 15 / Yen)

AUSTRALIA (May 15 / Aus$)

HONG KONG (May 15 / HK$)

INDONESIA (May 15 / Rupiah)

MALAYSIA (May 15 / MYR)

NEW ZEALAND (May 15 / NZ $)

SINGAPORE (May 15 / S$)

SOUTH KOREA (May 15 / Won)

TAIWAN (May 15 / TW $)

THAILAND (May 15 / Baht)

AMERICAS

CANADA

TORONTO (May 15 / Can $) 4 pm close

MONTREAL (May 15 / Can $) 4 pm close

MEXICO (May 15 / Peso) 12:30 pm

AFRICA

SOUTH AFRICA (May 15 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 15 1998 US Dollar Index	%chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	THURSDAY MAY 14 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	201.97	0.9	183.76	171.18	187.05	214.07	4.8	3.68	202.08	183.71	171.24	186.78	214.11	243.87	190.26	230.25
Austria (23)	239.82	26.9	218.21	203.26	222.11	221.98	25.7	1.48	239.97	218.18	203.35	221.81	221.68	242.41	181.60	190.84
Belgium (26)	339.05	33.2	308.49	287.36	314.00	307.34	32.2	2.35	338.21	307.47	[illegible]	312.61	306.10	339.05	[illegible]	248.96
Brazil (28)	237.58	−0.4	216.17	201.36	220.03	501.48	2.4	1.97	234.48	213.17	198.70	216.73	495.00	322.44	184.94	251.98
Canada (120)	243.92	14.8	221.94	206.73	225.90	256.22	16.4	1.57	243.95	221.79	206.74	225.50	255.85	248.78	198.10	200.57
Denmark (34)	490.49	9.6	446.28	415.71	454.26	452.69	8.6	1.34	496.25	451.15	420.52	458.68	457.10	521.61	376.32	384.32
Finland (28)	436.63	56.8	397.27	370.08	404.37	498.07	55.8	1.84	442.27	402.08	374.79	408.80	501.46	461.12	267.45	269.36
France (79)	317.62	32.7	288.99	269.19	294.16	297.89	31.8	1.98	318.75	290.69	270.96	295.55	299.09	318.93	213.42	231.12
Germany (58)	290.33	26.6	264.16	246.08	268.88	268.86	25.4	1.22	289.67	263.35	245.47	267.75	287.75	290.93	204.89	210.77
Greece (37)	277.74	0.0	252.71	235.40	257.22	613.54	0.0	1.51	280.92	255.39	238.05	259.66	619.52	298.79	264.68	–
Hong Kong, China (68)	288.14	−19.3	262.17	244.21	266.85	286.63	−19.3	5.55	[illegible]	263.25	245.36	267.85	288.00	580.03	262.93	497.73
Indonesia (27)	32.09	−51.4	29.20	27.20	29.72	219.10	−4.3	3.32	30.31	27.56	25.68	28.01	211.97	254.90	27.67	225.39
Ireland (16)	541.76	34.9	492.92	459.16	501.74	539.32	35.9	1.80	542.24	492.96	459.49	501.10	539.56	560.44	336.68	349.44
Italy (54)	165.46	40.6	150.55	140.23	153.24	217.05	39.7	1.29	166.01	150.92	140.67	153.44	217.31	177.16	86.93	90.76
Japan (480)	94.01	−1.3	85.54	79.68	87.07	79.68	1.7	[illegible]	94.12	85.56	79.76	86.99	79.76	141.12	88.52	131.34
Malaysia (107)	165.99	1.0	151.03	140.68	153.73	239.34	−2.9	2.90	163.03	148.21	138.15	150.69	237.18	541.84	113.65	510.10
Mexico (29)	1585.75	−12.1	1442.81	1343.98	1468.60	14760.47	−7.1	1.62	1574.14	1431.08	1333.94	1454.98	14633.48	1901.98	1395.63	1395.63
Netherlands (19)	510.76	24.6	464.72	432.88	473.02	468.03	23.4	1.97	511.10	464.85	433.11	472.41	467.33	521.95	368.99	371.84
New Zealand (14)	69.14	−9.5	62.91	58.60	64.03	68.51	−2.0	4.77	69.34	63.04	58.76	64.09	68.95	96.47	69.14	87.94
Norway (38)	335.65	5.1	305.40	284.48	310.86	341.02	6.7	1.84	342.29	311.18	290.06	316.38	348.30	374.64	281.62	301.48
Philippines (22)	90.82	14.6	82.63	76.97	84.11	179.91	14.1	1.15	91.19	82.90	77.28	84.29	179.51	173.10	57.54	157.23
Portugal (18)	278.86	0.0	253.72	236.34	258.26	348.35	0.0	1.08	276.99	257.02	234.72	256.02	345.34	299.39	276.89	–
Singapore (42)	183.06	−18.7	166.56	155.15	169.54	138.44	−20.8	2.17	177.96	161.80	150.82	164.51	135.89	401.75	144.01	389.45
South Africa (43)	316.41	18.2	287.89	268.17	293.04	351.53	24.5	2.56	314.27	285.70	266.31	290.46	349.26	364.24	227.66	359.96
Spain (31)	375.62	38.2	341.77	318.35	347.87	430.19	37.1	1.78	376.08	341.90	318.69	347.61	430.21	398.69	236.28	249.21
Sweden (49)	595.36	28.8	541.69	504.59	551.38	682.06	23.7	1.71	594.77	540.71	504.01	549.75	677.51	612.15	439.98	454.06
Switzerland (30)	402.87	18.2	366.56	341.45	373.11	369.90	20.0	1.09	405.13	368.31	343.31	374.48	371.77	410.80	265.85	289.77
Thailand (39)	23.23	20.4	21.14	19.69	21.52	35.08	−2.8	8.00	22.86	20.78	19.37	21.13	34.38	69.09	13.10	60.15
United Kingdom (208)	380.21	14.6	345.94	322.24	352.12	345.94	15.7	2.84	382.16	347.43	323.85	353.23	347.43	401.84	293.10	302.78
USA (635)	453.08	14.3	412.24	384.00	419.61	453.08	14.3	1.42	458.52	415.09	386.96	421.98	458.52	462.18	335.79	340.47
Americas (810)	410.21	13.9	373.23	347.66	379.90	346.69	14.1	1.43	410.05	375.51	350.03	381.79	349.07	418.95	307.27	311.13
Europe (748)	356.29	23.2	324.17	301.97	329.97	337.29	23.1	1.99	357.51	325.02	302.95	330.44	337.94	363.50	256.75	262.67
Nordic (149)	519.59	26.0	472.75	440.37	481.20	522.84	24.0	1.69	522.23	474.77	442.54	482.70	523.23	536.56	386.48	390.11
Pacific Basin (668)	102.32	−3.4	93.09	86.72	94.76	87.43	−0.8	1.70	102.36	93.06	86.74	94.61	87.49	168.99	95.32	140.00
Euro-Pacific (1617)	208.18	14.2	189.41	176.44	192.80	181.80	14.9	1.91	208.71	189.79	176.87	192.92	181.87	216.04	170.03	185.41
North America (755)	439.77	14.3	400.13	372.72	407.29	439.88	14.4	1.43	442.97	402.71	375.36	409.44	443.05	448.61	327.50	331.86
Europe Ex. UK (540)	332.48	28.0	302.51	281.79	307.92	328.81	27.4	1.57	333.34	303.05	282.48	308.11	329.00	336.80	230.16	235.35
Pacific Ex. Japan (389)	180.14	−10.1	163.90	152.67	166.83	184.07	−8.9	4.27	179.80	163.45	152.37	166.19	184.04	318.99	161.31	301.78
World Ex. US (1835)	212.06	13.8	192.94	179.73	196.39	189.01	14.7	1.90	212.50	193.18	180.07	196.41	189.20	220.18	175.30	189.50
World Ex. UK (2262)	281.15	14.9	255.81	238.29	260.38	257.17	14.3	1.51	282.52	256.85	239.41	261.14	258.30	287.02	234.24	238.72
World Ex. Japan (1990)	386.76	16.1	351.90	327.79	358.19	380.50	16.2	1.73	388.82	353.48	329.49	359.39	382.40	394.38	300.22	302.21
The World Index (2470)	289.57	14.1	263.47	245.42	268.18	266.20	14.5	1.65	290.99	264.54	246.58	268.96	266.36	296.57	241.30	244.18

Emerging markets: IFC Investable indices

May 14

4 pm close May 15

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
§ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 15	May 14	May 13	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9096.00	9172.23	9211.84	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.70	104.84	104.78	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3424.73	3459.07	3442.92	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	279.92	279.11	280.43	291.18 (2/4)	262.66 (9/1)	291.18 (2/4/98)	10.53 (8/7/32)

DJ Ind. Day's high 9240.74 (9286.89) Low 9051.91 (9077.07) (Theoretical)
Day's high 9186.18 (9221.56) Low 9080.52 (9113.94) (Actual)

Standard and Poors	May 15	May 14	May 13	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1108.73	1117.37	1118.86	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1294.86	1308.20	1309.20	1311.46 (22/4)	1077.40 (9/1)	1311.46 (22/4/98)	3.52 (30/6/32)
Financial‡	133.60	133.22	133.68	140.93 (14/4)	110.65 (9/1)	140.93 (14/4/98)	7.13 (4/8/74)
Others							
NYSE Comp.	574.40	578.31	579.20	585.62 (22/4)	487.47 (9/1)	585.62 (22/4/98)	4.64 (25/4/42)
Amex Comp	737.09	741.38	742.98	753.67 (22/4)	648.41 (12/1)	753.67 (22/4/98)	324.20 (15/7/96)
NASDAQ Comp	1846.77	1865.36	1866.18	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	472.44	476.55	477.48	491.41 (21/4)	410.88 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	May 8	May 1	Apr 24	Year ago
Dow Jones Ind. Div. Yield	1.58	1.54	1.66	1.71
	May 13	May 6	Apr 29	Year ago
S & P Ind. Div. yield	1.30	1.33	1.35	1.72
S & P Ind. P/E ratio	31.06	30.66	30.29	23.33

US DATA

JAPAN

	May 15	May 14	May 13	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15242.86	15307.89	15343.81	17264.34	14664.44	38915.8	85.25

Day's high 15412.84 Day's low 15213.29

TOKYO TRADING ACTIVITY — Volume : 405,000,000

FRANCE

	May 15	May 14	May 13	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3980.23	4011.98	4019.76	4019.76	2862.54	4019.76	984.61

Day's high 4024.35 Day's low 3954.50

PARIS TRADING ACTIVITY — Volume : 384,222,550

GERMANY

	May 15	May 14	May 13	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5393.14	5361.22	5376.88	5442.00	4087.28	5442	931.18

Day's high 5398.42 Day's low 5372.84

UK

	May 15	May 14	May 13	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5917.8	5948.5	5972.9	6105.80	5068.00	6105.8	986.9

Day's high 5953.2 Day's low 5895.5

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low
Jun	1119.10	1112.40	-7.00	1123.40	1110.10
Sep	1104.00	1124.60	-7.00	1135.60	1123.00

Nikkei 225	Open	Sett price	Change	High	Low
Jun	15170.0	15230.0	+20.0	15370.0	15140.0
Sep	15350.0	15310.0	+30.0	15380.0	15310.0

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

THE NASDAQ STOCK MARKET

THE NASDAQ STOCK MARKET

AMEX PRICES

EASDAQ

FT GUIDE TO THE WEEK

MONDAY 18

Kohl's big chance

Helmut Kohl, Germany's chancellor, today delivers a speech which may turn out to be the most important in his long campaign for an unprecedented fifth term in office. Mr Kohl's address to the annual congress of his Christian Democratic Union in Bremen must put new life into the CDU's flagging election campaign if he is to have a chance of overtaking the large opinion poll lead of Gerhard Schröder, the candidate of the opposition Social Democratic Party, by the general election on September 27.

Trade agenda

The World Trade Organisation holds its second ministerial meeting and celebrates the 50th anniversary of the international trading system. More than a dozen heads of government will be in Geneva to join the birthday bash including Bill Clinton, US president, Tony Blair, UK prime minister, Nelson Mandela, president of South Africa, and Fidel Castro, Cuba's president. Groups opposed to the impact of globalisation on local communities and culture are planning big demonstrations, prompting tight security measures in the Swiss city.

Modified versions

European Union ministers will try to agree in Brussels on controversial plans to label food made from genetically modified maize and soya. Environmental and consumer groups say the proposals, put forward by the European Commission, are inadequate and several countries oppose a suggestion that a "may contain" label should be attached to goods when it is unclear whether genetically modified organisms are present.

Dominican vote

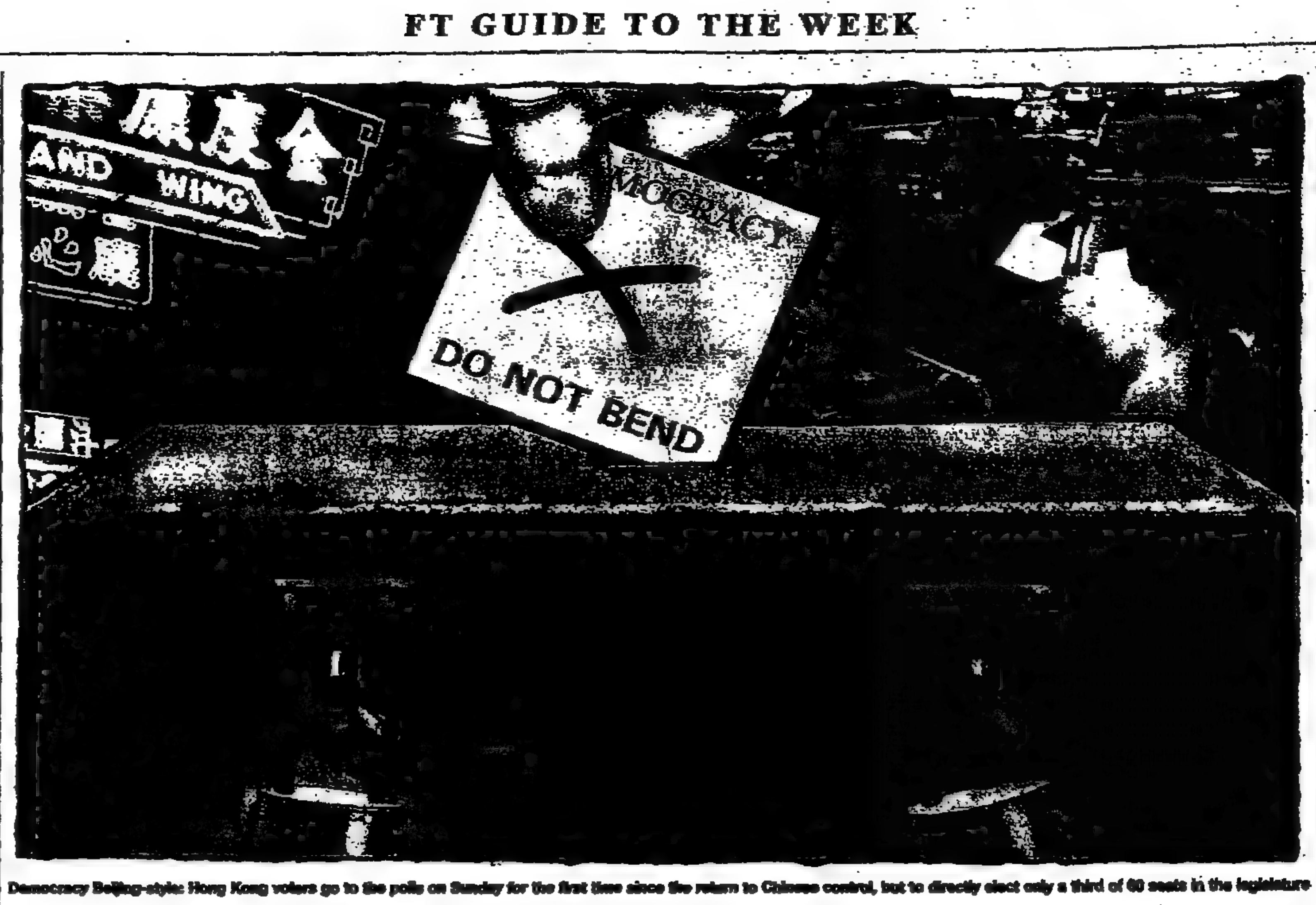
Elections for 30 senators, 149 members of the Chamber of Deputies and more than 100 local officials are held in the Dominican Republic.

Socialist event

Yasser Arafat, Palestinian leader, Ehud Barak, former Israeli army chief, and Shimon Peres, former Israeli prime minister, are among 400 politicians attending the Council of the Socialist International in Sweden. Main topic of discussion will global solidarity; sub-themes include strengthening democracy, defending human rights and promoting initiatives for peace.

Boeing touch down

Boeing, the world's biggest aircraft manufacturer, makes its debut at the biennial ILA air show, held at Schoenefeld airport, Berlin, until Sunday.



Democracy Beijing-style: Hong Kong voters go to the polls on Sunday for the first time since the return to Chinese control, but to directly elect only a third of 60 seats in the legislature

Russian attraction

Experts on the impact on health of electromagnetic fields gather in Moscow to discuss the work of eastern European scientists. The week-long meeting is part of a project by the World Health Organisation which is looking, among other things, at whether the use of mobile telephones can be harmful. The WHO says much of the research in eastern Europe has been unavailable to scientists elsewhere because it has been published only in Russian.

Grounding in air control

Airport managers from developing countries meet in Casablanca, Morocco, to discuss how to cope with hijackings and potential disasters. The week-long seminar, organised by Airports Council International, the Geneva-based world airports body, includes sessions on prevention techniques, security equipment, media relations and medical co-ordination.

Mushroom for improvement

Raising mushrooms in culture using dried water hyacinths offers a cheap and environmentally-friendly way for Africa to tap into the burgeoning $9bn (£5.3bn) global edible mushroom market, according to a book published today by the United Nations Development Programme. The technique, developed by an environmental business foundation, converts water hyacinth, a parasitic weed, into a growth medium for mushrooms. The medium can be fed to earthworms which are used subsequently for chickenfeed.

Non-aligned line up

Non-aligned countries meet for a three-day annual summit in Cartagena, Colombia. Issues up for discussion include reorganisation of the United Nations, international co-operation, external debt, disarmament, development, the environment and poverty. Concerns about the faltering Arab-Israeli peace process and India's recent nuclear tests are expected to feature prominently in the disarmament debate. The 113 non-aligned nations will also look at ways of increasing their influence in the UN and the Security Council by raising the number of permanent members and right of veto.

FT Surveys

Slovenia; World Trade System at 50.

Holidays

Canada, Cameroon, Turkmenistan.

TUESDAY 19

Mobile feast

European Union telecommunications ministers meet in Brussels to discuss plans for a co-ordinated transition to the "third generation" mobile telephone standard – UMTS, or Universal Mobile Telecommunications System – set to replace the existing GSM standard after about 2002. Other points on the agenda include a plan for safe use of the internet, including controlling harmful and illegal content, and more discussion on the dispute over US plans to reform the way the internet is managed.

Round the table

Deutsche Bank holds a research roundtable in Frankfurt on "The British Economy and Britain's role within the European Monetary Union".

Duty free plea

Ireland will seek support from European Union finance ministers at their monthly meeting in Brussels for a study of the impact of a proposed abolition of duty free sales. It wants abolition to be reconsidered, although a decision to keep duty free sales would have to be agreed by all countries.

Flower power

The Chelsea Flower Show gets under way in London. Chanel, Cartier and Christie's join forces to produce what is planned to be the grandest ever horticultural show (To May 22).

FT Survey

Shanghai.

WEDNESDAY 20

Greek strike call

Greece's biggest labour confederation GSEE calls for a four-hour stoppage at all state corporations and banks as a prelude to a 24-hour nationwide strike on May 27 against the socialist government's privatisation plans.

FT Survey

Responsible Business.

Holidays

Sweden, Switzerland (half-days).

THURSDAY 21

FT Survey

Reporting Britain.

Holidays

Benin, Burkina Faso, Cameroon, Central African Republic, Chile, Ivory Coast, Togo, Austria, Belgium, Denmark, Finland, France, France, Germany, Iceland, Luxembourg, Netherlands, Norway, Sweden, Switzerland Bangladesh, Indonesia.

FRIDAY 22

Peace deal test

The Northern Irish peace deal will be put to referendums in Northern Ireland and the Republic of Ireland. Voters in the republic will also vote on amending their constitution to drop a long-standing territorial claim to the whole island.

Expo '98 opens

The official opening of the Expo '98 World Fair, which runs until September 30, takes place in Lisbon.

FT Survey

Chicago.

Holiday

Belgium.

SATURDAY 23

Apec issues

Finance ministers of the Asia-Pacific Economic Co-operation (Apec) group begin a two day meeting at Kananaskis near Calgary, Canada. They plan to discuss broad issues related to macroeconomic policies, capital flows, capital market development and infrastructure financing.

Imperial tour

Japan's Imperial couple will leave Tokyo for a 12-day trip to Europe during which they will visit Portugal, the UK and Denmark. In the UK Emperor Akihito and Empress Michiko will lay a wreath at the tomb of the unknown soldier. Former British prisoners of war and internees plan a demonstration.

SUNDAY 24

Hong Kong poll

Hong Kong voters go to the polls in the first elections since the territory returned to China last July. The 60 seats in the territory's legislature will be determined by a complex series of votes, with only 20 seats determined by direct election. The pro-democracy camp argues that the playing field has been tilted towards pro-Beijing parties. The smooth handover to Chinese sovereignty, however, has reduced the impact of the China issue. Instead, voters' concerns are dominated by economic matters, notably unemployment arising from the sharp downturn in growth and the regional financial crisis.

Holidays

Bulgaria, Ukraine.

Compiled by Roger Beale
Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news

Monday: Japan's trade balance for April may again exceed Y1,000bn, because of imports performing more weakly than exports.
Tuesday: The Federal Open Markets Committee decides on US interest rates. Some reports suggest a chance of an increase, but recent GDP deflator data and Asia worries are likely to help keep rates on hold. US housing starts for April are also released, with market forecasts of slower growth.
Wednesday: The provisional German consumer price index for May is expected to show a moderate increase similar to April's 0.2 per cent monthly rise. But the annual rate will benefit from the effect of last year's rise in energy prices.
Thursday: The US Treasury budget statement for April is forecast to record its largest-ever monthly surplus, after reports of individual tax payments up $18bn compared with last year. Nomura analysts estimate a Federal budget surplus of $46.5bn.
Friday: The second estimate of UK GDP growth for the first quarter is released, with possible revisions to the first estimate's 0.4 per cent quarterly increase.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Monday	Japan	Apr money supply (M2 +CD)**	4.1%	4.8%		Canada	Mar merchandise exports†	[illegible]	-2.2%
May 18	Japan	Apr broad liquidity**		3.0%	Thurs	UK	Apr retail sales*	[illegible]	[illegible]
Tuesday	Germany	Apr Ifo West business climate index	98.7	98.8	May 21	UK	Apr retail sales**	4.6%	4.1%
May 19	Germany	Apr Ifo West balance format		2.8		UK	Apr M4*	[illegible]	[illegible]
	UK	Apr retail price index*	1.0%	0.3%		UK	Apr M4**	[illegible]	[illegible]
	UK	Apr retail price index**	3.9%	3.5%		UK	Apr M4 lending	[illegible]	[illegible]
	UK	Apr retail price indx, ex mortgages**	2.8%	2.6%		UK	Apr vehicle production		[illegible]
	UK	Apr public sector borrowing req'ment	-£0.2bn	£7.2bn		Canada	Mar retail sales*	[illegible]	[illegible]
	US	Apr housing starts	1.56m	1.58m		US	May Philadelphia Fed index	[illegible]	[illegible]
	US	Apr building permits		1.58m		US	Apr Treasury Budget	[illegible]	[illegible]
	Canada	Mar manufacturing shipments*	1.7%	2.9%	Fri	UK	Q1 prov gross domestic product*	[illegible]	[illegible]
	Canada	Mar manufacturing new orders	0.8%	0.8%	May 22	UK	Q1 prov gross domestic product**	[illegible]	[illegible]
	US	BTM-Schroders May 16		N/A		Italy	May 11 cities consumer price index*	[illegible]	[illegible]
	US	Redbook May 16		-0.3%		Italy	May 11 cities consumer price index**	[illegible]	[illegible]
	Japan	Apr trade bal (customs cleared, nsa†)	Y1,15[illegible]bn	[illegible]	During the week...				
Weds	Japan	Mar industrial production†		-1.9%		Germany	[illegible]	[illegible]	[illegible]
May 20	Japan	Feb shipments†		-1.8%		Germany	Apr M3 [illegible]	[illegible]	[illegible]
	Germany	Mar trade balance	Dm12.0bn	Dm11.7bn		Germany	Apr M3 [illegible]	[illegible]	[illegible]
	Germany	Mar current account	Dm3.0bn	Dm0.2bn		Germany	[illegible]	[illegible]	[illegible]
	France	Mar industrial production†*	0.2%	0.7%		Germany	[illegible]	[illegible]	[illegible]
	France	Mar ex-energy*	0.4%	1.1%		Germany	[illegible]	[illegible]	[illegible]
	US	Mar trade: goods/services	-$12bn	-$13.8bn		Italy	[illegible]	[illegible]	[illegible]
	US	Mar goods/services exp't (bal of pay)	78bn	$77bn		Italy	Apr [illegible] reserves	[illegible]	[illegible]
	US	Mar goods/services imp't (bal of pay)	90bn	$89.1bn		Italy	[illegible] bank lending	[illegible]	[illegible]
	Canada	Mar wholesale trade†*	0.8%	0.5%	[illegible]				

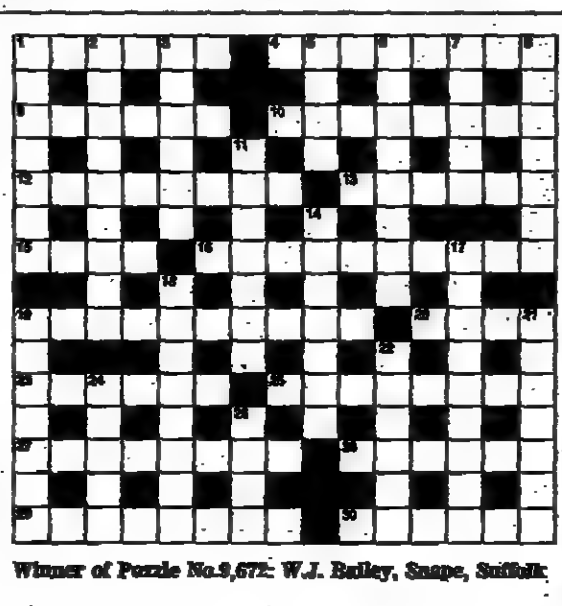
Prices for electricity submitted for the purposes of the electricity pooling and settlement arrangements in England and Wales. [illegible]

Prices for electricity submitted for the purposes of the electricity pooling and settlement arrangements in England and Wales. [illegible]

MONDAY PRIZE CROSSWORD
No.9,684 Set by DANTE

ACROSS
1 Warning given by a 25 across (8)
4 Understood to have won popularity (6,2)
9 Striker appears satisfied about the sum (6)
10 Best man's bloomer, omitting end of speech (8)
12 Fastening that becomes undone is a problem on undergarment (4-4)
13 Keep watch on this chap (6)
15 For this pudding use the back gas-ring (4)
16 Estimate on rebuilding home (10)
19 Nose to nose, perhaps, and ready (2,4,4)
20 Voyage any skipper would try to avoid (4)
23 They may be called fakes (6)
25 Critic about to join one of the audience (8)
27 Highest score? (3-5)
28 Fearful sort of cavern (6)
29 The length of time around it varies (8)
30 A new bride's bits and pieces (6)

DOWN
1 Retribution seems in order (7)
2 Addressing some criticism (7-2)
3 Staff of office? (5)
5 Current male desire (4)
6 Taking a stroll after midnight is taking a risk (8)
7 Now and again (5)
8 In a neat move catch the girl (7)
11 Uncommon payment for an author (7)
14 Crafty ruse he'd introduced (7)
17 How Trevor resolved to get rid of his love? (5,4)
18 Promenade provides ocean air (8)
19 Journeyed round the world? (7)
21 Father splits a couple with children (7)
22 In France, Peter accepts date for a pied-a-terre (6)
24 Such a cut may be seen in a ring (5)
26 She loved Narcissus, it's recalled (4)



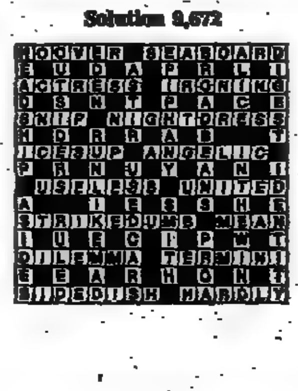
Winner of Puzzle No.9,672: W.J. Bailey, Snape, Suffolk

A magnum of Laurent Perrier Rosé champagne for the first correct solution opened. This prize is available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a stainless steel FT desk clock. Solutions by Thursday May 28, marked Monday Crossword 9,684 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 1. *Please allow 28 days for delivery of prizes.*

Name____________________

Address____________________

Solution 9,672



JOTTER PAD

هكذا من الأصل

THE WORLD TRADE SYSTEM AT 50

As ministers gather to celebrate five decades of global co-operation, **Guy de Jonquières** warns that the forces of liberalisation are increasingly running into local obstacles

Success brings new challenges

When the founding members of the newly-created General Agreement on Tariffs and Trade assembled in Geneva in 1948, they were united by a utopian vision: to restore growth, prosperity and stability to a world economy ravaged by war and ruinous protectionism.

Even the most far-sighted could scarcely have guessed how triumphantly, half a century later, their ambitions would be fulfilled. Nor could they have imagined the array of fresh and testing challenges that achievement would create.

The 50th anniversary of the multilateral trade system – to be marked by a three-day ministerial meeting of the World Trade Organisation which opens in Geneva today – is more than an historic milestone. The celebrations coincide with a step-change in the liberalisation agenda.

Since the Gatt was formed, eight trade negotiating rounds have cut tariffs in industrialised countries to less than 4 per cent on average, a tenth of their level at the outset. Many import quotas have been swept away and subsidies more strictly disciplined.

The result has been a long, sustained upswing in world trade volumes. Since 1948, merchandise exports have increased 16 times – almost three times the growth in world output. Along with a surge in foreign direct investment flows, this expansion has tied national economies ever more closely into an interdependent global network.

Meanwhile, the Gatt, which started life with 50 members, has metamorphosed into the more muscular and broadly-based WTO. Its members today number 132 and more than 30 countries want to join.

The WTO's swelling ranks reflect the ascendancy of market-oriented policies worldwide. As developing countries embrace export-led growth as the engine of economic development, they have become increasingly active participants in the multilateral system.

The collapse of communism has injected added impetus. The queue of WTO applicants is headed by China and includes Russia, the Ukraine, former Soviet republics in central Asia, Albania and Vietnam.

The WTO's reach is also extending deeply into areas where the Gatt trod only cautiously. They include intellectual property protection, foreign investment policies and – most importantly – services: last year, the WTO reached two landmark deals to liberalise basic telecommunications and financial services.

The bedrock of the WTO's enhanced stature, however, is its strengthened system for settling trade disputes. This has equipped it with quasi-judicial authority to enforce – as well as negotiate – multilateral rules. The system is already proving highly effective in smoothing frictions which, in the past, regularly flared into mutually damaging trade retaliation.

No club's rules are, of course, stronger than members' respect for them. Some WTO disputes decisions, such as last year's ruling against the Europe Union's ban on hormone-treated beef, have provoked acute political discomfort and squeals of outrage. Nonetheless, collective self-interest in upholding the rule of law has kept governments from flouting the system.

But the WTO will need all its authority and resilience to cope with the overriding task shaping up for the next century: managing the further advance of global economic integration, which past trade liberalisation has done so much to promote.

One of the organisation's biggest challenges will be to continue moving ahead with a purposeful agenda, while maintaining cohesion among a steadily growing number of members, at widely different stages of economic development.

Ways need to be found to continue pushing forward the frontiers of liberalisation, without compromising the long-established consensus principle which locks all WTO members into its decisions.

That task will be all the more demanding, because world trade policy is no longer focused simply on dismantling barriers around national markets. Increasingly, it aims to set the terms on which global competition operates. Effective market regulation is more and more becoming a prerequisite of multilateral liberalisation.

Last year's telecommunications agreement marked an important step in that direction. It contains basic regulatory principles, which require governments to provide foreign carriers, on fair terms, with access to domestic networks. The principles amount, in effect, to a world competition policy for the industry in embryo.

But the forces which are thrusting the WTO's rule-making role into greater prominence must contend with sizeable practical and political obstacles. Many countries lack proven and effective machinery to implement global rules – or face strong domestic resistance to complying with them.

That is as true of industrialised as of developing economies. Last year's hormones ruling has divided the EU over how to bring its food safety policies into line with WTO rules. Another recent WTO judgment, against US curbs on imports of shrimp caught with nets which can trap turtles, has outraged American environmental lobbyists, placing heavy pressure on Washington to disregard it.

The issues in such cases frequently go beyond a conflict over national laws and regulations. As the forces of liberalisation and global competition drive more deeply into domestic economies, they are increasingly running up against local political systems and strongly-held popular beliefs and values.

The resulting strains threaten to accentuate the ill-focused yet emotionally potent malaise known as "globalisation backlash". This counter-trend has been widely blamed for US President Bill Clinton's failure last year to persuade Congress to renew the fast track authority he needs to conclude trade agreements.

The debacle was partly due to tactical ineptitude by the White House. But in retrospect, Mr Clinton's key failing was his inability to articulate a persuasive case for the benefits of free trade, which appealed to a broad political constituency.

Historically US support for free trade has relied crucially on a narrow but influential coalition of political and economic interests. International trade negotiations, meanwhile, have long been an elitist activity in which progress depended largely on governments' ability to cut deals which they could sell to domestic producers.

All that is changing. As global trade disciplines extend across an ever broader front, they are affecting a steadily more diverse range of interest groups, which span the political spectrum.

These have acquired vocal and politically influential champions in non-government organisations (NGOs) – among them trades unions, environmental groups, development lobbyists and human rights activists.

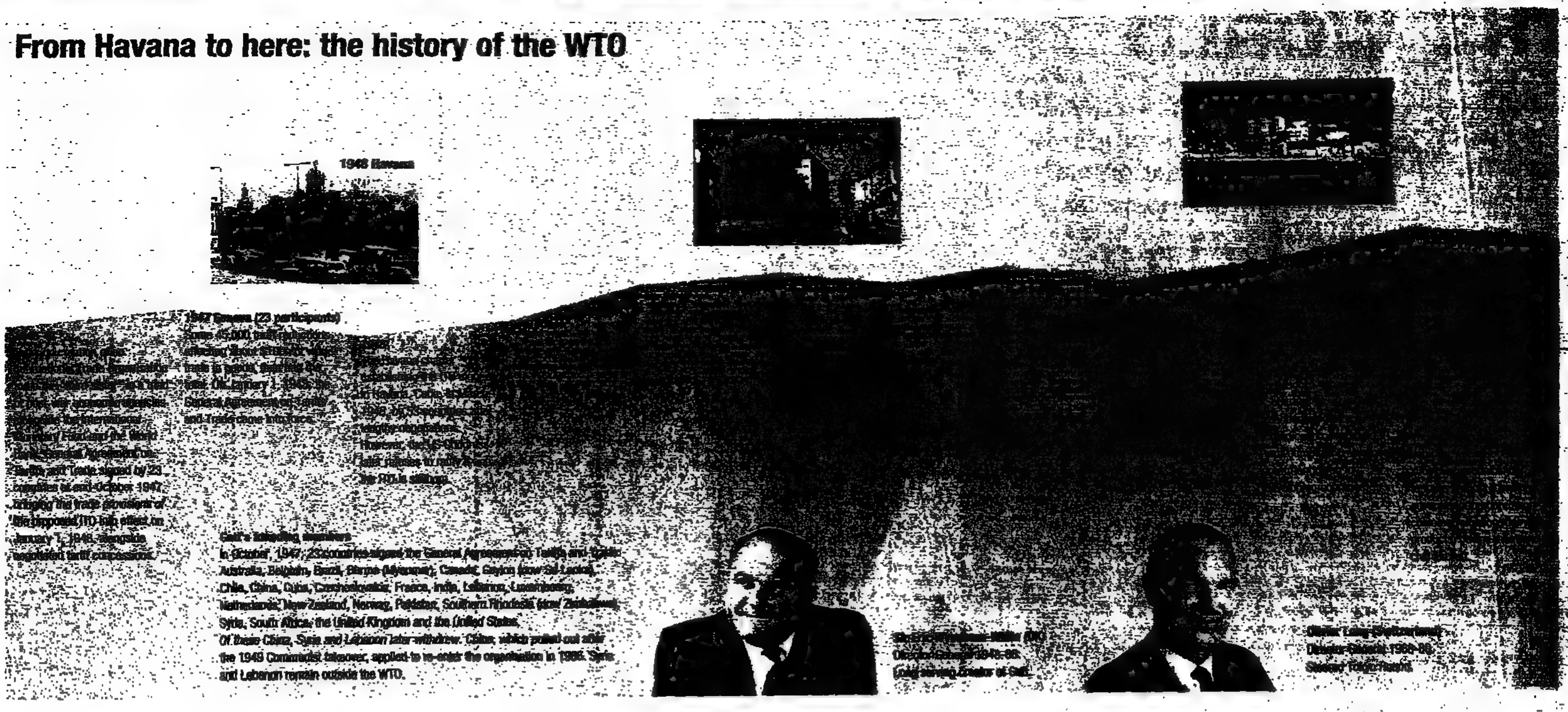
This trend is most advanced in the US but is spreading to other countries, including developing nations such as India. The best-organised NGOs have become adept at lobbying parliaments to demand a bigger say in the formulation of policies, at both the national and international level.

The effects are already being felt at the WTO and at other international institutions. They are under growing pressure to shed their traditional monastic secrecy in favour of a more open style, which involves greater public consultation.

But the most important long-term consequence of this growth in interested parties may be that governments will have to strive to establish the legitimacy of policies among a wider and more disparate range of interest groups. That implies re-thinking their approach to building constituencies and shaping public opinion.

International trade policy has always been determined as much by the realities of domestic politics as by wrangling in the negotiating chamber. It is ironic that accelerating globalisation appears to be making that truth more relevant than ever before.

From Havana to here: the history of the WTO



PERSONAL VIEW • *The director-general of the WTO*

A structure on which to build

Renato Ruggiero believes the WTO will develop to manage the global economy

The visionaries and statesmen who created the Multilateral Trading System in 1948 were determined not to repeat the mistakes that led first to the great global depression and then to the most tragic conflict in human history.

In founding a rules-based trading system, in which nations did not discriminate against their trading partners, they built a framework that has sparked an unprecedented age of prosperity.

In 1948 there were 23 signatories to the General Agreement on Tariffs and Trade, the large majority of them industrialised nations. Today there are 132 members of the World Trade Organisation, the Gatt's successor, and 80 per cent of these are developing countries or economies in transition. More than that, all 32 countries awaiting accession to the WTO are developing countries or economies in transition. This is a clear referendum in favour of liberalisation inside a rules-based system.

The divisions which marked the bipolar world of the Cold War have eroded and the challenge of managing a divided world has given way to the challenge of managing a global economy. The traditional divisions between North and South are also blurring, especially in the fields of those new technologies which accelerate the development process by making it easier to access information and knowledge.

Since its creation three years ago, the WTO has produced some extraordinary achievements. In reaching agreement on the three historic trade liberalisation accords – global telecommunications, information technology products and financial services – it has achieved the equivalent of a major trade round, the technology and financial round for the 21st century.

Last year, the WTO also launched a process designed to bring the poorest countries into the mainstream of the international trading system.

The challenges we face are related to these achievements and to the need for economic policy makers to address the concerns of civil society in an increasingly interdependent world.

We cannot ignore the importance of environmental, security and public health issues. But while the WTO and the multilateral system can, and should, contribute to efforts aimed at resolving problems in these fields, we cannot be asked to give all the answers to all these problems.

If the organisation is to remain relevant in a fast changing global economy, we must also begin to integrate new issues, such as global electronic commerce, investment and competition, into the system. But this must be done in a way which takes into consideration the difficulties these issues present for many developing countries.

We must reduce any possible tension between a growing number of regional agreements and the continuing strength of the multilateral system.

Governments must continue to create new kinds of regionalism, which facilitate trade through harmonisation of technical standards and removal of customs red tape rather than preferential tariff treatment.

The momentum that we have established through the achievements of the last few years has reaffirmed the primacy of the multilateral system. But we must not rest on our laurels. Governments have committed themselves to free trade across the Pacific, free trade in the western hemisphere and free trade between Europe and the Mediterranean.

What now divides us from a global trade area inscribed in a rules-based system?

The multilateral trading system will be more important than ever to the international architecture of the new century. Our system must keep pace with technological and economic change. By adapting what has proven to be a remarkably successful system to the changing needs of our peoples, the WTO will provide an invaluable contribution to growth, prosperity and stability in the world.

PERSONAL VIEW • *The US Trade Representative*

Taking the message to Main St

Charlene Barshefsky says the public must be won over to the WTO's mission

It did not happen overnight but over the past 50 years under the Gatt (General Agreement on Tariffs and Trade) open markets and expanded trade have played an important role in defining international relations in a more peaceful, productive and cooperative framework.

The founders of the Gatt believed that open trade, based on the rule of law, could raise living standards in developed and developing countries. They believed it could help prevent repetition of the disasters of the 1930s, when trade wars and nationalist, protectionist forces deepened the Depression and eased the rise of the dictators and demagogues. And they were right.

In economic terms, the Gatt promoted a sixteen-fold increase in trade, helping to quadruple world economic output and lift hundreds of millions of people from poverty. The Gatt also provided a "political" framework that helped instill peace and democracy by integrating Germany, Japan and the post-colonial nations into world commerce and international institutions.

Today, we can both complete and go beyond their work by meeting four great challenges.

First, is the Gatt's traditional task of reducing its members' trade barriers and ensuring rules-based trade. The WTO "built-in agenda", including negotiations on agriculture and services, offers great opportunities to further raise living standards and create prosperity.

Services comprises the fastest growing area of global trade and provides a growing share of jobs and income annually. Meanwhile, reducing agricultural trade barriers is important toward meeting the needs of growing populations.

Second is the end of the Cold War. A quarter of world's population – Russia, the other former Soviet Republics, China, countries of Indochina – remain outside the WTO. Their admission, on commercially meaningful terms, is a chance to commit virtually the entire world to the principles of market economies and the rule of law and, by integrating Russia and China, to complete the task begun with Japan and Germany after World War II.

Third is the information revolution. By the year 2002, electronic commerce will grow from about $8bn to more than $300bn in the US alone. And the world of electronic transmissions is, in trade terms, pristine. The right trade policy is in place, beginning with the decision to preserve the Internet as a "duty free" area of trade, speeding creation of telemedicine services; new forms of art and a vast array of new ways to make life safer, healthier and better. Technology, coupled with micro credit enterprises, can unlock substantial economic opportunities in developing countries and provide a foundation for broader, sustainable growth.

Fourth – and, I believe, most important – is winning the support of "Main Street constituencies" – the workers and families that fear the affects of globalisation.

As trade grows, trade policy naturally comes under greater scrutiny from citizens. They care not only about tariffs and quotas but transparency and accountability in government regulation, labour practices and environmental protection. The WTO must respond. It must be more open to citizens and citizen associations and provide a meaningful role to include their concerns as part of its routine practices.

But the WTO cannot do it all alone. Policymakers must work harder to build consensus about the benefits of trade among the public – not just in Washington, Brussels and Geneva but in small towns, schools and city neighbourhoods. If they do not, those who make political hay from protectionist arguments will advance and the world's prospects for prosperity in the next century will recede.

Our agenda is important and will substantially shape prospects for wider global prosperity in the next millennium. The rewards of success – a more prosperous, secure and peaceful world – are worth the work. The past half century has made the world far more prosperous, secure and peaceful and we have the chance to make the next century even better.

PERSONAL VIEW • *The European Commissioner*

More work still to be done

Sir Leon Brittan says Europe is taking the lead in the process of liberalisation

As world leaders gather to mark the 50th anniversary of the General Agreement of Tariffs and Trade, they have much to celebrate. But they also have much to do. For Gatt's golden jubilee comes at an important stage in its development.

The progress made in global trade liberalisation is astounding. The Uruguay Round, concluded in 1993, established the World Trade Organisation and, with it, the first legally binding dispute settlement mechanism.

It also achieved the greatest economic benefits of any of the eight rounds to date, estimated at $164bn.

Since then the progress has continued through a series of major sectoral agreements, notably in financial services, information technology and telecommunications. These have kept up the momentum for liberalisation in high-growth areas of the economy.

But there is another birthday to celebrate this year – the 40th anniversary of the decision by EU member states to share responsibility in trade matters by establishing the Common Commercial Policy.

Since then, Europe has provided much of the will and many of the ideas that have been the engine of trade liberalisation worldwide.

Europe was already a force for liberalisation in the Uruguay Round negotiations, but in the sectoral achievements that followed Europe has unquestionably taken the lead in pushing for greater and faster liberalisation of world markets than any of our partners.

In the face of such a catalogue of achievement, Europe's present leaders need to maintain the momentum for liberalisation as a key to sustaining our growth and improving our job prospects.

Since 1945 trade has been a much more potent agent for growth than domestic economic expansion. A substantial liberalising agenda is also the best way to counter the protectionist temptations besieging Asian leaders in the wake of their region's financial crisis. This is no time for standing still.

The so-called Millennium Round provides a wonderful opportunity. According to the timetable laid down under the Uruguay Round, multilateral talks on agricultural products and services are already scheduled to begin on January 1, 2000.

The question is what else should be included in order to maximise the chances of increased market access. Should we broaden the talks so that they are so comprehensive as to amount to a new round?

Here, Europe is once again taking the lead. Last month EU foreign ministers gave their formal backing to the commission's call for a comprehensive new round of trade negotiations, covering not only built-in commitments but also industrial tariffs and non-tariff barriers.

Since then several important countries have indicated that they too favour a Millennium Round.

In addition to more market access and the jobs and growth that will bring, I believe there are two other areas that WTO member countries should also deal with this ninth round.

We need to take decisions needed to allay the fears of those who think that increased trade would be at the expense of the environment. Second, we need to begin to negotiate some common rules on competition policy, for the lack of an effective competition policy can thwart the operation of the most liberal trade policy.

Heads of state and government meeting today in Geneva face important challenges which they must not shy away from if the next half-century of world trade is to match the progress, stability and growth of the last, and also meet new challenges thrown by the very progress that we have achieved.

1999-? Geneva: the Millennium Round? Trading powers are edging towards the idea of a new round starting in 1999-2000, building on already scheduled talks on agriculture and services. The EU, the most enthusiastic advocate of a round, hopes to see included industrial tariffs, trade and environment links, foreign investment and competition policy. Some are even daring to suggest the round might aim for global free trade.

Arthur Dunkel (Switzerland)
Director General 1980-93.
Former Swiss trade negotiator who laid the groundwork for successful completion of the Uruguay Round.

Peter Sutherland (Ireland)
Director General 1993-95.
Pugnacious former Irish justice minister and EU competition commissioner who cajoled and bullied governments into closing the Uruguay Round.

Renato Ruggiero (Italy)
Director General since 1995.
Former Italian trade minister and Eurocrat who has overseen important WTO agreements on financial services, telecoms and information technology.

Sir Leon Brittan
EU trade commissioner. Tireless campaigner for open trade with an eye for big initiatives, including the expansion of the WTO's competition and investment policy, the launch of a "Millennium" round and transatlantic free trade.

EYEWITNESS • by Frances Williams

Sticking to the rules

Present at Gatt's birth, Julio Lacarte-Muro has shared its journey to maturity

Julio Lacarte-Muro had not long arrived at the newly created United Nations secretariat in 1946 when his boss dropped a paper on his desk and asked him to take care of it.

The paper contained the US draft charter for an International Trade Organisation, which was to be the third pillar of the postwar economic edifice alongside the International Monetary Fund and the World Bank.

When that same year the UN set up a preparatory committee to pave the way for an international conference on an ITO, Sir Eric Wyndham White, a Briton who was to be the first head of Gatt, became its executive secretary and Mr Lacarte-Muro his deputy.

Before the conference in Havana, Cuba, the preparatory committee decided to put negotiated tariff cuts into effect with some of the ITO's trade rules that would protect the tariff concessions.

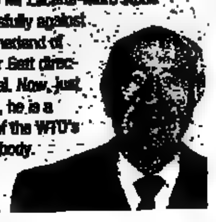
Inside view

Julio Lacarte-Muro took part in negotiations which established the General Agreement on Tariffs and Trade in 1947, becoming deputy executive secretary at its inception.

During two tours of duty as Uruguay's Gatt ambassador in Geneva in the 1960s and 1980s, he held all the important elective Gatt offices.

He has taken part in all eight trade-liberalising Gatt rounds and chaired the Uruguay Round negotiating group that drafted the final agreement on creation of the World Trade Organisation and its dispute settlement mechanism.

In 1993 Mr Lacarte-Muro stood unsuccessfully against Peter Sutherland of Ireland for Gatt director-general. Now, just turned 80, he is a member of the WTO's appellate body.



The agreement was signed in October 1947 by 23 "contracting parties", and Gatt came into existence in January 1948 as a modest first step towards an ITO.

The Havana charter establishing the ITO was signed by 53 nations, virtually the whole of the postwar international community with the exception of the wartime losers – Germany, Italy and Japan – and the Soviet Union which was invited to participate but declined.

But the US, which then accounted for about half world trade, failed to ratify the treaty: the ITO was stillborn.

Gatt was left as the sole standard-bearer for multilateral trade, but it was not even a properly constituted organisation.

Mr Lacarte-Muro laments the failure to set up the ITO, which he says would have been more inclusive of the world trading community and could have spoken with a stronger voice, for instance in dealings with the IMF.

With the same economic developments and pressures, he believes the ITO would have become something very like the WTO today. What the founders of Gatt did not envisage, he says, was the phenomenal success of their efforts. Between 1948 and 1997 world output rose 5.5 times but trade in goods soared 14-fold.

Mr Lacarte-Muro attributes this to half a century of world peace and the pace of technological change. "Technological advance leads to globalisation whether you like it or not."

But underpinning the growth of world trade has been the rules-based trading system laid out in Gatt and now the WTO.

The WTO, of course, is not an exact replica of what the ITO might have been. For instance, unlike the WTO, the original ITO charter included chapters on employment, restrictive business practices, economic development and commodities.

Economic development and commodities are now under the wing of the WTO's Geneva neighbour, the UN Conference on Trade and Development (Unctad), set up in 1964. However, the US is once again pressing for the WTO to concern itself with labour standards while other WTO members, notably the European Union, are keen for it to negotiate global competition rules.

Mr Lacarte-Muro identifies three other big differences between the WTO and the ITO and Gatt:

- Whereas the ITO charter, and that of Gatt, were relatively short, "the WTO has 500 pages of commitments and thousands of pages of tariff bindings. The rules of the game have been set out now and they keep on being set out in a way that never occurred in the history of world economic relations."
- Developing countries, which account for the bulk of the WTO's 132-strong membership, have a far bigger role in the world trading system and in formulating international trade policy.
- The dispute settlement mechanism of the WTO has "transformed the picture for smaller and medium-sized countries". In Gatt there were relatively few disputes, some cases ended inconclusively and only a limited number of important countries made use of it. Now "countries big and small have recourse to it, and countries big and small lose and win".

Nevertheless Mr Lacarte-Muro points out that Gatt was right about the basic principles such as most-favoured-nation treatment, non-discrimination and a continuing trade liberalisation process.

"Everything that was contained in Gatt came under enormous scrutiny in the Uruguay Round," he says.

"The fact that some of these basic provisions have not been touched is an indication that they have survived the test of time. We have buttressed them but we haven't changed them."

THE INTELLECTUAL ARGUMENT • by Martin Wolf

Why liberalisation won

Open markets have shown convincingly their ability to create wealth

Between 1950 and 1996, the volume of world merchandise trade grew by 1,500 per cent. This is the happy bequest of a small Anglo-American band of idealists. The liberalisation of trade and payments they initiated in the darkest days of the second world war has turned from hope into flourishing reality.

The vision of the founding fathers was a mixture of the old and the new. The theoretical case for liberal trade had been advanced by Adam Smith and elaborated by his successors, foremost among them David Ricardo, inventor of the theory of comparative advantage.

If the case for liberalism was old, its institutional underpinnings were new. Mindful of the catastrophe of the interwar years, the makers of the postwar world wished to put the liberal economic order on a sounder footing than ever before. With this in mind, they created institutions: the International Monetary Fund, to oversee payments; the General Agreement on Tariffs and Trade, to oversee trade; and the Organisation for European Economic Cooperation, to oversee both, in Europe.

These men were visionaries. Half a century ago, the case for liberal trade was far less widely accepted than it is today. Congress refused to grant president Clinton "fast-track" negotiating authority last year. In the 1940s, it refused to ratify the International Trade Organisation altogether, leaving a supposedly temporary Gatt to fill the gap, until the World Trade Organisation was established at the end of the Uruguay Round.

What changed minds was experience. Over the 1950-96 period, the volume of world output rose 6-fold, while merchandise trade expanded 16-fold; world output of manufactures grew 9-fold, while world trade in manufactures rose 31-fold. Trade has consistently led output.

The integration of the world economy over the past 50 years started by reversing the disintegration in the interwar years. But this had been achieved by 1970. It then went further than ever before: according to the economic historian, Angus Maddison, the ratio of world merchandise exports to gross domestic product in the early 1990s was 60 per cent higher than in 1913. The average effective tariff rate in high-income countries, at 2½ per cent, was lower than ever before. Last year, world exports of merchandise and commercial services reached $6,500bn – a fifth of global output.

Trade liberalisation was not the only cause of this integration. Also important were changes in technology and economic organisation: the real price of air travel fell two-thirds between 1950 and 1990; and that of a telephone call between New York and London declined by almost 95 per cent. Multinational companies revolutionised both the transmission of knowledge and the organisation of global production: by 1992, intra-company trade was some 40 per cent of US trade.

Yet it was impossible for a country to take advantage of these new opportunities without first opening itself to trade. Countries that excluded themselves were left in a stagnant backwater.

Initially, the push for liberal trade was confined largely to North America and Europe. Even there, doubts were expressed, not least concerning the impact of liberalisation on a country's ability to secure full employment. In the event, the feared conflict failed to emerge. The 1950s and 1960s were glorious years of fast growth and low unemployment.

Unfortunately, this success was thought to be of no relevance to developing countries. Europe liberalised under the aegis of the Gatt, the OEEC and the European Community. Virtually all other countries pursued import substitution, infant-industry protection and self-sufficiency.

Happily, there were a few exceptions, virtually all in east Asia. Japan – followed by South Korea and Taiwan – pursued a mercantilist route to export expansion; Hong Kong and Singapore were liberal. But all these economies were more outward-looking than other developing countries, not to mention those under communist sway.

The results were stunning. The four Asian newly industrialised economies raised their average real incomes per head from 20 per cent of those of the high-income countries in 1965, to 70 per cent, by 1995.

Subsequently, their path was followed by other countries: Chile, Indonesia, Malaysia and Thailand from the late-1960s or early 1970s; and then China from the early 1980s. When the Gatt was founded, India was the developing world's leading exporter of manufactures. By the 1980s, it exported far less than Malaysia or Thailand, let alone South Korea or Taiwan.

While the almost universal developing-country infatuation with protection was ruinous, it was also as close as it is possible to come to a controlled experiment. Closest of all, however, were the divided countries: West and East Germany; South and North Korea; Taiwan and mainland China. In each case, economies that started with much the same human resources and incomes per head diverged dramatically. By the 1990s, the ratio of real income per head had moved to more than 10 to one in South Korea's favour.

The rapid trade-led growth of successful east Asian economies did more than raise average incomes. According to the World Bank, the number of people living on the equivalent of $1 a day, in common international prices, fell from more than 700m to 350m between 1975 and 1995 in that region. No comparable decline occurred in any other part of the world.

By the 1980s, it was evident to anyone with eyes that all the world's successful economies, except those sitting on oil or diamonds, were busily exploiting the growing opportunities to trade. What the eye could see, cross-country empirical analyses also confirmed.

Integration into world trade offers a host of advantages: ability to exploit abundant factors of production; the opportunity to take advantage of economies of scale; lower prices for consumers; exposure to competitive pressure; access to information about markets and new technology; and integration into international systems of production. Deprived of these benefits and starved of foreign exchange, the most protectionist economies suffered slow growth, economic instability, or both.

The intellectual arguments for liberalism have always encountered arguments against it. In the 1980s, strategic trade theory was added to the protectionist armoury. This explores industries characterised by oligopoly and increasing returns. Yet, here again, as with infant industry protection, political reality and the unavoidable ignorance of officials make consistently successful selective intervention almost impossible.

The growing realisation of the benefits of openness to trade stimulated a worldwide move towards liberalisation, which was crowned by the collapse of communist regimes in Europe and the former Soviet Union. In the developing world and the countries in transition, the liberalisation was largely unilateral, though it was also pushed along by programmes agreed with international financial institutions. But in high-income countries, international negotiations continued to play a decisive role.

The worldwide shift towards liberalism culminated in the Uruguay Round – the most comprehensive of the eight postwar multilateral trade negotiations. For the first time, a negotiation involved almost every economy and area of world trade. The result was a programme of liberalisation that covered services, as well as the whole of merchandise trade, for the first time.

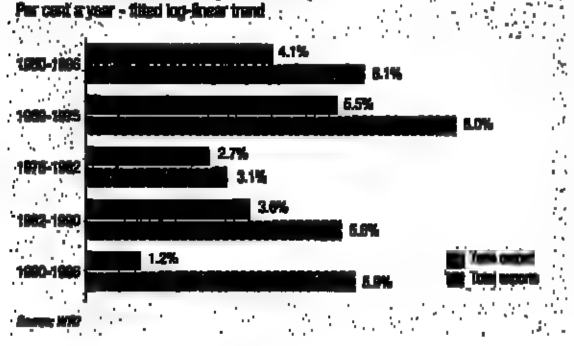
Intellectual victories are never final. While countries that chose protection have mostly recognised their folly, high-income countries have become consumed by the fear of globalisation – "globaphobia", as it is sometimes now called. People worry about the impact of trade on wages, environmental regulation or food safety. Some object to alleged infringement of national sovereignty by the WTO. Yet these new objections to today's liberal trading order are either misplaced, exaggerated or easily dealt with within a rules-based liberal trading system.

The case for liberal trade is now grounded in economic theory and, something far more compelling, experience. Only extreme stupidity would allow the world to forget what it has so painfully learned.

Divides and rules: the histories of split nations, such as Korea, graphically support liberalisation AP

World output and exports of manufactures
Per cent a year – fitted log-linear trend

World merchandise output and exports
Per cent a year – fitted log-linear trend



Source: WTO

POLICY • by Guy de Jonquières

Uncharted, and troubled, waters

The WTO faces pressures to tackle a long list of new issues

For most of the world trade system's 50-year-life, policymakers and negotiators have been preoccupied with dismantling border barriers, such as tariffs and quotas.

But today a lengthening queue of far more slippery challenges is jostling for a place on the agenda.

As global integration accelerates, the line between trade policy and other areas of economic and social policy – some long regarded as the sovereign preserve of national governments – is becoming increasingly blurred.

This messy convergence is placing pressure on the WTO to extend its rule-making to often poorly charted new areas with demands focused on four main ones, known among trade policymakers as the "new issues". They are environment, competition policy, investment and workers' rights.

In some of these, calls for WTO action are based on the argument that common rules and disciplines are needed to keep markets open and prevent international trade conflicts developing. In other cases the aim is more to promote social and political, rather than economic, objectives.

However, WTO members are far from reaching a consensus on the merits of tackling these issues. Indeed, efforts to get some of them on its agenda have provoked bitter disagreements which have exposed divisions within governments as well as between them.

Nonetheless, the pressures on the organisation to grapple with the new issues seem unlikely to abate. Indeed, they may strengthen in the future. These are the main elements in the debate over each of the issues:

● **Environment:** Tensions between world trade rules and environmental regulations first hit the headlines in 1991, when a Gatt disputes panel ruled against a US ban on imports of Mexican tuna fished with nets which also caught dolphins. Although the ruling never took effect, it caused a furore among US "green" lobbyists.

Similar issues were raised by a WTO disputes panel decision last month against a US law which restricts imports of shrimp caught with nets which can also catch turtles.

The US is appealing against the decision, insisting it has the right to maintain high environmental standards. The developing countries challenging the law say it amounts to disguised trade protection.

Prompted partly by the so-called tuna-dolphin case, Gatt established, in 1995, a committee to examine the links between trade and environment.

One of its key tasks is to seek ways to avert conflict between world trade rules and multilateral environmental agreements which provide for trade sanctions as a means of enforcement.

However, the committee has so far been unable to agree any recommendations for action. An important reason is resistance among developing countries, which fear any changes in WTO rules made on environmental grounds could give industrialised economies a pretext to erect new barriers to their exports.

● **Competition policy:** Largely at the urging of the European Union, WTO ministers agreed at their December, 1996, meeting in Singapore to set up a working group to study trade and competition policy and report later this year.

Proponents say WTO action is needed for three main reasons. These are to prevent access to members' markets being frustrated by inadequate enforcement of domestic competition rules, to avoid jurisdictional conflict between national anti-trust authorities and to ensure effective policing of competition on global markets which individual authorities are unable to control effectively.

Two recent developments are said to underline the case for a bigger WTO role.

One was last year's threat by EU competition authorities to impose trade sanctions on Boeing, if the US aerospace manufacturer did not satisfy Brussels' objections that its merger with McDonnell Douglas threatened to reduce the European manufacturer Airbus' competitive position.

The other was the Fuji-Kodak case brought by the US in the WTO. The US complained that Japan had tolerated restrictive practices in its photo-film market, which discriminated against Kodak and other foreign competitors.

But a WTO disputes panel rejected the complaint, finding that Japan's alleged malpractices did not violate world trade rules.

Karel Van Miert, EU competition commissioner, has suggested that the WTO seek to instil observance of basic anti-trust principles among its members. He has also called for a form of disputes procedure to settle jurisdictional conflicts between competition authorities.

However, the US is unenthusiastic about involving the WTO in competition policy, largely because its government is split on the issue. Trade policymakers, disappointed by the outcome of the Fuji-Kodak case, would like stronger rules to force countries, such as Japan, to open their markets.

But the US justice department strongly opposes giving the WTO powers in this area, fearing a more powerful WTO could weaken its own authority. Some in Washington also warn that any move to enable the WTO to override US trust-busters would cause an outcry in Congress.

Meanwhile, developing countries, most of which lack effective anti-trust regimes, insist that any WTO debate on competition policy also cover industrialised countries' use of anti-dumping policy to restrict imports.

● **Investment:** The 29-member Organisation for Economic Co-operation and Development provoked a bitter north-south split in the WTO when it set out in 1995 to negotiate an agreement to liberalise and formulate tougher rules for the protection of foreign direct investment.

Developing countries attacked the plan as a conspiracy by rich economies to impose disciplines on them without consultation. The OECD pooh-poohed these criticisms, saying only it could agree effective investment rules quickly.

However, the OECD talks have become bogged down in disagreements and its members recently agreed to support WTO efforts to tackle the issue.

But prospects for rapid decisions in the WTO, which has set up a working party to study trade and investment, do not look good. The task of achieving consensus, which has so far eluded the OECD, is likely to be even tougher in an organisation with 132 members at widely varying stages of economic development.

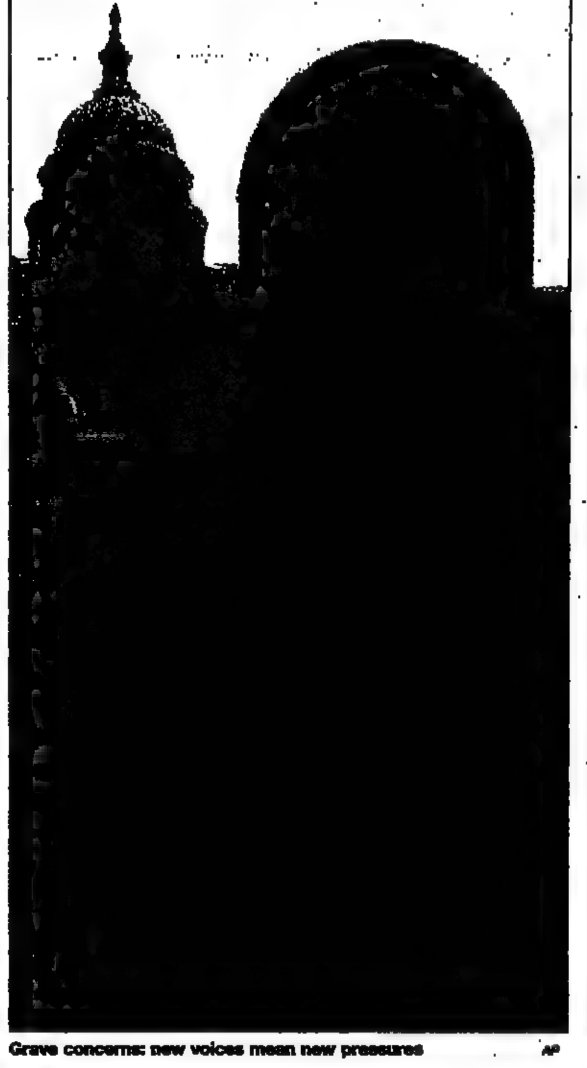
Furthermore, any debate in the WTO is likely to provoke strong lobbying by environmentalists and trades unions, which organised a highly effective resistance campaign against the OECD project.

● **Workers' rights:** Although a large majority of WTO ministers, at their Singapore meeting, rebuffed a US-led campaign to get this issue on the organisation's agenda, Washington continues to demand that trade agreements should promote respect for core labour standards.

Washington, with some support from France and Sir Leon Brittan, EU trade commissioner, says that unless trade policy responds to widespread concern about upholding workers' rights the risk of a protectionist backlash in the industrialised world will grow.

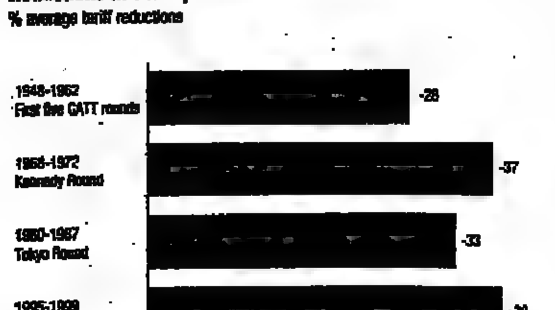
But developing countries strongly contest such arguments, claiming they are a back door attempt to legitimise protection.

The US is also vulnerable to accusations that its position is dictated more by partisan politics than by moral principle. The Clinton administration's efforts to link trade and workers' rights appeal to its trades union supporters but are vigorously opposed by Republicans, who control both houses of Congress.



Grave concerns: new voices mean new pressures AP

Reductions in trade protection
% average tariff reductions



Source: WTO

AGENDA • by Guy de Jonquières

Squaring the circle

The WTO's goals in the next two years may evolve in to a new trade round

For more than two years Sir Leon Brittan, Europe's apparently indefatigable trade commissioner, has circled the globe calling for a new round of world trade liberalisation talks.

He wants a decision to launch a "millennium" round taken by the end of next year, which also happens to mark the end of his term in office.

There are signs that his campaign is starting to gain ground. His proposal was recently endorsed by European Union foreign ministers. It has also attracted some support from Japan and Singapore as well as from Australia and other members of the Cairns Group of agricultural exporting countries.

However, the US remains decidedly unenthusiastic, partly because President Bill Clinton has failed so far to win the fast track authority needed to negotiate new trade agreements. There is also antipathy in developing countries, many of which appear to be suffering from "liberalisation fatigue".

Yet the argument over the merits of a new round may, in the end, boil down to little more than semantics. The WTO is already committed to start tackling a meaty agenda next year, headed by planned negotiations on agricultural trade and further liberalisation of services.

In practice, this "built-in" agenda may evolve naturally into a full-scale round. That is because countries which face pressure to open politically sensitive markets, such as agriculture, will be likely to insist on reciprocal concessions in other sectors of interest to their exporters.

It is too early to say what other items countries will put on the table once the bargaining begins – although support appears to be growing for further efforts to cut industrial tariffs – or how trade-offs between them will develop.

But many observers believe the main issues on which talks are scheduled are so complex and politically intractable that it will be difficult to make progress if they are confined to separate negotiations.

The built-in agenda is an innovation in world trade policy. It was decided during the Uruguay Round, partly to keep up the momentum of liberalisation and partly because much important business remained unfinished at the end of the talks.

In agriculture, the Uruguay Round's main achievement was to bring the sector for the first time firmly within world trade rules. Countries agreed to convert their non-tariff import barriers into tariff equivalents to be reduced in stages and to impose some disciplines on domestic and export subsidies.

In reality, however, the exercise did little more than lay the foundations for future liberalisation. It has done little to dismantle trade barriers.

Indeed, the World Bank has calculated that, because countries set tariff equivalents so high, levels of protection in the year 2000 will in many cases be higher than in the mid-1980s.

The Cairns Group, whose 15 members account for a fifth of all farm exports, is already sharpening its swords for battle. Its main targets are the European Union and Japan, where it wants to see big reductions in subsidies which discriminate against imports and distort world markets.

Hopes of progress hinge largely on the massive systemic pressures building up on Europe's much-criticised Common Agricultural Policy.

Brussels recognises that enlargement of the EU to include countries from eastern Europe may cause these pressures to explode and the CAP to collapse unless it is drastically reformed.

France, long the CAP's staunchest defender, now accepts that its reform is inevitable and could even benefit French exporters. Its main aim in the WTO appears to be in extracting the maximum trade concessions from other countries in return for changes in the CAP which it knows will have to happen anyway.

However, Germany, once a fierce critic of the CAP, has emerged as the most intransigent opponent of reform. The way the balance of political forces shapes up within the EU, and how it interacts with enlargement, are likely to have an important influence on farm trade negotiations in the WTO.

In services, on which a new round is scheduled to start in 2000, the US and the EU are expected to seek further advances on the liberalisation secured in last year's WTO agreements to open up global competition in basic telecommunications and financial services.

Both agreements were achieved through self-contained "single sector" negotiations. Although the effectiveness of this approach surprised some observers, it is not clear how much further it can be taken.

Many developing countries, which were the main targets of the two successful liberalisation drives, may be reluctant to open their markets further unless industrialised economies are ready to lower barriers to their principal exports.

Another issue likely to play a prominent role in the forthcoming services talks is how to address the impact on trade of the internet and electronic commerce.

Until now the WTO's efforts to liberalise services have focused mainly on those supplied from a commercial base within a foreign country. But the emergence of the internet as a potentially revolutionary means of delivering services between points anywhere in the world is expected to turn the spotlight squarely onto cross-border services competition.

Discussions in the WTO are still at an early stage. There is no consensus yet on whether existing multilateral rules adequately cover trading on the internet or whether special additional disciplines are needed to keep markets open and ensure fair competition.

It is as hard to say where the discussions will end up as it is to predict the outcome of the wider international debate on the complex issue of internet governance.

It will be interesting to see how far the internet's growing role spurs changes in other areas of trade policy and how far the WTO's approach to electronic commerce is shaped by political pressures to link it to trade-offs on other issues.

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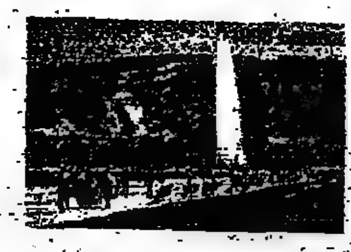
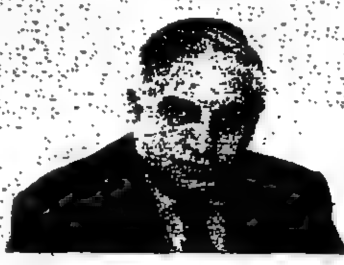


1995-? Geneva: the Millennium Round? (130-odd participants). Trading powers are edging towards the idea of a new round starting in 1999-2000, building on already scheduled talks on agriculture and services. The EU, the most enthusiastic advocate of a round, hopes to see included industrial tariffs, trade and environment links, foreign investment and competition policy. Some are even daring to suggest the round might aim for global free trade.

Arthur Dunkel (Switzerland)
Director General 1980-93.
Former Swiss trade negotiator who laid the groundwork for successful completion of the Uruguay Round.



Peter Sutherland (Ireland)
Director General 1993-95.
Pugnacious former Irish justice minister and EU competition commissioner who cajoled and bullied governments into closing the Uruguay Round.

Renato Ruggiero (Italy)
Director General since 1995.
Former Italian trade minister and Eurocrat who has overseen important WTO agreements on financial services, telecoms and information technology.

Sir Leon Brittan
EU trade commissioner. Tireless campaigner for open trade with an eye for big initiatives, including the expansion of the WTO's competition and investment policy, the launch of a "Millennium" round and transatlantic free trade.

EYEWITNESS • by Frances Williams

Sticking to the rules

Present at Gatt's birth, Julio Lacarte-Muro has shared its journey to maturity

Julio Lacarte-Muro had not long arrived at the newly created United Nations secretariat in 1946 when his boss dropped a paper on his desk and asked him to take care of it.

The paper contained the US draft charter for an International Trade Organisation, which was to be the third pillar of the postwar economic edifice alongside the International Monetary Fund and the World Bank.

When that same year the UN set up a preparatory committee to pave the way for an international conference on an ITO, Sir Eric Wyndham White, a Briton who was to be the first head of Gatt, became its executive secretary and Mr Lacarte-Muro his deputy.

Before the conference in Havana, Cuba, the preparatory committee decided to put negotiated tariff cuts into effect with some of the ITO's trade rules that would protect the tariff concessions.

The agreement was signed in October 1947 by 23 "contracting parties", and Gatt came into existence in January 1948 as a modest first step towards an ITO.

The Havana charter establishing the ITO was signed by 53 nations, virtually the whole of the postwar international community with the exception of the wartime losers – Germany, Italy and Japan – and the Soviet Union which was invited to participate but declined.

But the US, which then accounted for about half world trade, failed to ratify the treaty: the ITO was stillborn.

Gatt was left as the sole standard-bearer for multilateral trade, but it was not even a properly constituted organisation.

Mr Lacarte-Muro laments the failure to set up the ITO, which he says would have been more inclusive of the world trading community and could have spoken with a stronger voice, for instance in dealings with the IMF.

With the same economic developments and pressures, he believes the ITO would have become something very like the WTO today. What the founders of Gatt did not envisage, he says, was the phenomenal success of their efforts. Between 1948 and 1997 world output rose 5.5 times but trade in goods soared 14-fold.

Mr Lacarte-Muro attributes this to half a century of world peace and the pace of technological change. "Technological advance leads to globalisation whether you like it or not."

But underpinning the growth of world trade has been the rules-based trading system laid out in Gatt and now the WTO.

The WTO, of course, is not an exact replica of what the ITO might have been. For instance, unlike the WTO, the original ITO charter included chapters on employment, restrictive business practices, economic development and commodities.

Economic development and commodities are now under the wing of the WTO's Geneva neighbour, the UN Conference on Trade and Development (Unctad), set up in 1964. However, the US is once again pressing for the WTO to concern itself with labour standards while other WTO members, notably the European Union, are keen for it to negotiate global competition rules.

Mr Lacarte-Muro identifies three other big differences between the WTO and the ITO and Gatt:

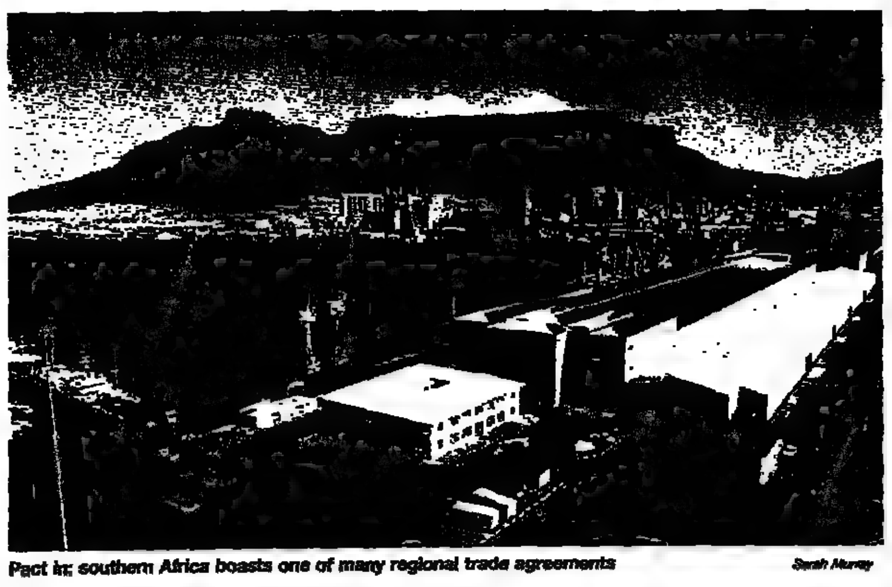
- Whereas the ITO charter, and that of Gatt, were relatively short, "the WTO has 500 pages of commitments and thousands of pages of tariff bindings. The rules of the game have been set out now and they keep on being set out in a way that never occurred in the history of world economic relations."
- Developing countries, which account for the bulk of the WTO's 132-strong membership, have a far bigger role in the world trading system and in formulating international trade policy.
- The dispute settlement mechanism of the WTO has "transformed the picture for smaller and medium-sized countries". In Gatt there were relatively few disputes, some cases ended inconclusively and only a limited number of important countries made use of it. Now "countries big and small have recourse to it, and countries big and small lose and win".

Nevertheless Mr Lacarte-Muro points out that Gatt was right about the basic principles such as most-favoured-nation treatment, non-discrimination and a continuing trade liberalisation process.

"Everything that was contained in Gatt came under enormous scrutiny in the Uruguay Round," he says.

"The fact that some of these basic provisions have not been touched is an indication that they have survived the test of time. We have buttressed them but we haven't changed them."

Inside view
Julio Lacarte-Muro took part in negotiations which established the General Agreement on Tariffs and Trade in 1947, becoming deputy executive secretary at its inception.
During two tours of duty as Uruguay's Gatt ambassador in Geneva in the 1960s and 1980s, he held all the important elective Gatt offices.
He has taken part in all eight trade-liberalising Gatt rounds and chaired the Uruguay Round negotiating group that drafted the final agreement on creation of the World Trade Organisation and its dispute settlement mechanism.
In 1993 Mr Lacarte-Muro stood unsuccessfully against Peter Sutherland of Ireland for Gatt director-general. Now, just turned 80, he is a member of the WTO's appellate body.



Pact in: southern Africa boasts one of many regional trade agreements *Sarah Murray*

REGIONALISM • by Guy de Jonquières

Blocking moves

The proliferation of regional trade agreements leaves economists deeply divided

Here is a paradox. The faster the pace of globalisation becomes, the stronger the urge among nations all over the world to club together in regional economic and trade groupings.

The World Trade Organisation says it has been notified of almost 180 regional trade arrangements. All its 132 members except Japan, Hong Kong and Korea belong to at least one.

And their numbers keep growing. A third of the total has been registered since 1990, six so far this year alone.

Few issues divide trade economists as deeply as the rise of regionalism. Some say the phenomenon is benign and view regional groups as important building blocks for global economic integration.

They claim countries in regional groupings can dismantle trade barriers between one another faster than is possible in the WTO, laying the foundations for eventual multilateral liberalisation. All that is then needed is to "join up the dots" between them.

But others think regionalism creates stumbling blocks. They say such agreements are discriminatory because members enjoy preferential access to each others' markets which is denied to exporters in third countries.

Such groupings, it is alleged, are often unbalanced because their most powerful member can impose on smaller ones conditions which benefit it most.

Renato Ruggiero, WTO director-general, has warned that the agreements may also impede global integration by distracting governments' attention from multilateral liberalisation.

Which of these opposing arguments is right is hard to establish with certainty. One reason is that no effective mechanisms exist for assessing the agreements' impact.

Although the WTO is supposed to vet them for conformity with multilateral rules, its members have long considered it in their interest to keep its criteria vague and its procedures weak.

Definitive judgments are also difficult because the characteristics, their scope and motivations vary widely and have changed over time.

The first burst of regionalism began in the 1950s and 1960s, triggered by formation of the European Community. It remains unique, both in the extent of the internal trade liberalisation achieved and in the fact that this was accompanied by deep institutional integration and pooled sovereignty.

However, the EC's formation had one feature in common with many subsequent agreements. Its primary inspiration was as much political as economic. In many cases, governments view promotion of trade as a means to underpin closer overall relations rather than as an end in itself.

The second wave of regionalism emerged in the late 1980s, driven by two developments. One was the crumbling of communism, which prompted many east European countries to seek market-based alternatives to the Soviet-dominated Comecon system.

The other spur was fears that the Uruguay Round world trade talks would collapse, taking the multilateral system with them. The quest for fallback arrangements gave impetus to groupings including the North American Free Trade Agreement and the Asia Pacific Economic Co-operation Forum.

In the 1990s developing countries have taken up the running, banding together into groupings such as Latin America's Mercosur and the Southern Africa Customs Union.

For many the appeal of regionalism is as a safety net against globalisation. By offering their producers an expanded – and partly protected – domestic market, regional trade agreements are thought to provide a platform from which to confront international competition.

The EU, meanwhile, has recently given a higher priority to negotiating free trade agreements with developing economies, notably in the Mediterranean region, as well as with Mexico and Mercosur.

It is also considering replacing the Lomé Convention with a network of such agreements with African, Caribbean and Pacific countries.

Recently, however, regionalism seems to have lost some of its allure. Grand plans for a Free Trade Area of the Americas have stalled, while Apec's plans to free all trade between members by 2010 have ground almost to a standstill.

Meanwhile a proposal by Sir Leon Brittan, Europe's trade commissioner, to negotiate a "transatlantic marketplace" agreement with the US was shot down by EU ministers last month.

One reason for the faltering momentum is Asia's economic crisis, which has blunted the appetite of many countries in the region for further liberalisation. More important still has been a sea change in US attitudes.

After enthusiastically embracing regionalism in the 1980s, Washington has been thrust on to the defensive by a political backlash against Nafta. Indeed, Nafta's unpopularity in Congress contributed heavily to President Bill Clinton's failure to win renewed "fast track" trade negotiating authority last year.

Nonetheless, many policymakers think the lull may be only temporary. Some believe the time has come to draft tougher WTO disciplines to stop regionalism proliferating endlessly into the future and threatening the cohesion of the multilateral system.

The EU, with cautious backing from Japan, Hong Kong, Korea and a few larger developing countries, is seeking to have the WTO rules beefed up as part of the next multilateral trade round. But it is still not clear whether their efforts will gain wider support.

The fact that almost all the WTO's members are participating in the regionalism race may lead them to find a collective interest in subjecting themselves to tougher disciplines.

But, without more conclusive evidence that the costs of regionalism outweigh the perceived benefits, they may decide they can afford to persist for a while longer in their old ways.

The growth in regional trade agreements

Intra-regional trade agreements entering into force

Number of agreements

Signatories over time	1940's	1950's	1960's	1970's	1980's	1990's
W.Europe	0	1	4	13	3	8
N. Africa/W. Asia	0	0	1	0	0	0
Latin America	0	2	3	[illegible]	2	[illegible]
Asia/ Oceana	0	1	3	3	2	3
N. America	0	0	0	0	1	1
Sub-Saharan Africa	1	1	3	[illegible]	[illegible]	1
C.&E.Europe	0	0	0	[illegible]	0	21

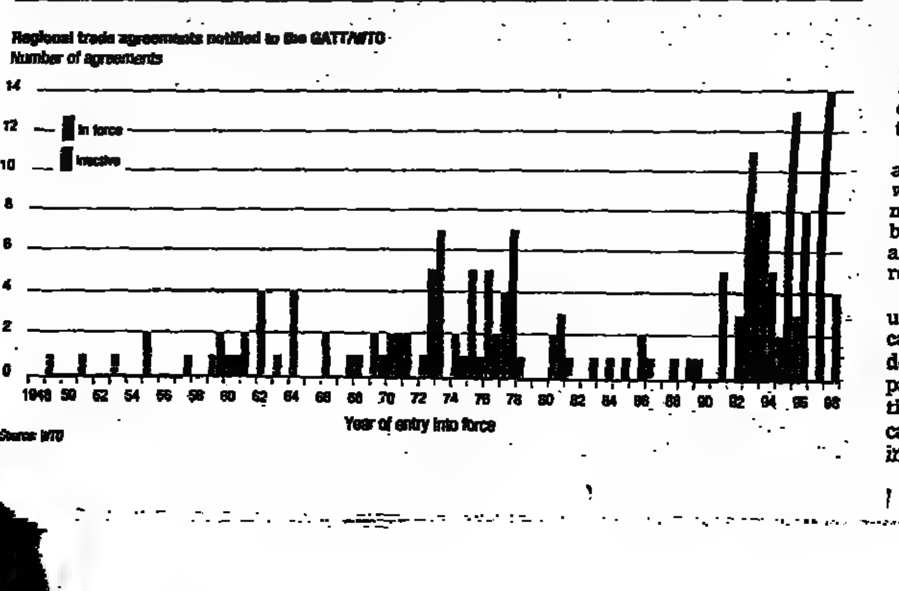
Inter-regional trade agreements entering into force

Number of agreements

Signatories over time	1940's	1950's	1960's	1970's	1980's	1990's
W. Europe & C/E. Europe	0	0	0	5	1	37
W. Europe & N.Africa/W.Asia	0	0	4	21	0	3
W. Europe & Sub-Saharan Africa	0	0	1	2	0	0
W.Europe & other	0	0	1	2	2	1
Oceana & Sub-Saharan Africa	0	1	0	0	0	0
N. American & Latin America	0	0	0	0	2	2
N. American & N. Africa/W. Asia	0	0	0	0	1	1
C/E. Europe & N. Africa/W. Asia	0	0	0	0	0	5
Other	0	0	1	1	1	0

Regional trade agreements notified to the GATT/WTO

Number of agreements



Source: WTO

DEVELOPING NATIONS • by Frances Williams

Fostering interdependence

Sceptisism has given way to a belief that co-operation benefits all

Wealth of nations: developing countries, such as Vietnam, have recognised the benefits of a rules-based trading system *Sarah Murray*

Though for many years the Gatt was billed as a "rich man's club", developing countries made up half its original membership. Moreover, a "one-country one-vote" system gave small, poor nations the same voting weight as the US, which then dominated world trade, in sharp contrast to practice at the IMF and World Bank.

Of course, in reality, the powerful trading clout of the US and other industrialised nations was the main driving force behind the Gatt and the rule of consensus – which the WTO has inherited – meant no decision could be taken without the consent of the main traders.

Poorer nations nevertheless increasingly came to recognise that a predictable rules-based trading system that outlawed trade discrimination worked to their advantage.

The WTO currently has 132 members, three-quarters of them developing countries, and their voices – backed by increased trading muscle – are being raised ever more strongly in the WTO's decision-making bodies.

Julio Lacarte-Muro, a veteran Uruguayan trade diplomat now on the WTO's appellate body, says the 1986-93 Uruguay Round of global trade talks marked a watershed. "There was a change of mentality on both sides – developed and developing countries," he says.

Developed countries realised that emerging economies were becoming important markets for their exports and wanted to secure predictable access. Developing countries, many of which were introducing economic and trade liberalisation programmes unilaterally, saw the opportunity to cement that liberalisation in the Gatt/WTO and receive trade benefits in return.

Though developing nations have sometimes been given longer transition times to comply with WTO rules, they will eventually be bound by the same trade rules as richer ones. The notion of "special and preferential treatment", which critics argued fostered the exclusion of developing countries from trade decision-making, now plays a diminished role.

Systemic benefits to poorer nations from the Uruguay Round included strengthened fair trade rules and a semi-judicial dispute settlement system that has been used extensively by poorer nations against the big traders, for instance, by Costa Rica and India against the US on textiles.

Developing countries as a group will also benefit from Uruguay Round decisions to restrain farm subsidies and border protection, which help richer nations undercut poor ones on world food markets, and to phase out quota restrictions on textiles – though the bulk of the liberalisation is being left to the end of the 10-year transition.

WTO assessments, carried out after the Uruguay Round was completed, estimated that rich countries cut tariffs on industrial products of interest to developing countries by 37 per cent, slightly less than the 40 per cent average. This reflects the continued existence of tariff "peaks" on goods such as textiles, clothing and fish and fish products but it does not include the gains from a phase-out of textile quotas.

In return, developing countries were obliged to accept new rules on intellectual property, services and investment as well as a vast array of extra disciplines in the goods sector.

Though ideological opposition to compliance in these areas is waning, it has resulted in an onerous burden of obligations in terms of new legislation, trade policy notifications and presence at WTO meetings, which many developing countries are struggling to cope with.

The burden of compliance has become one of the biggest issues for the WTO's poorer nations and is fuelling strong opposition from some countries to the inclusion of any new subjects on the WTO's future agenda.

Many of the more advanced developing countries signed up to wide ranging accords in the past two years on financial services, telecommunications and information technology products. But even they are baulking at the thought of adding competition and investment policy, not to mention electronic commerce, to the list of upcoming trade negotiations.

For the very poorest, the idea is daunting, prompting the WTO and the Swiss government, which hosts the WTO, to try to give some modest practical help. The cash-strapped WTO runs a variety of technical assistance programmes, mostly by way of training and the provision of information technology, though it is also taking part in formulating trade action plans in cooperation with the UN system and the World Bank.

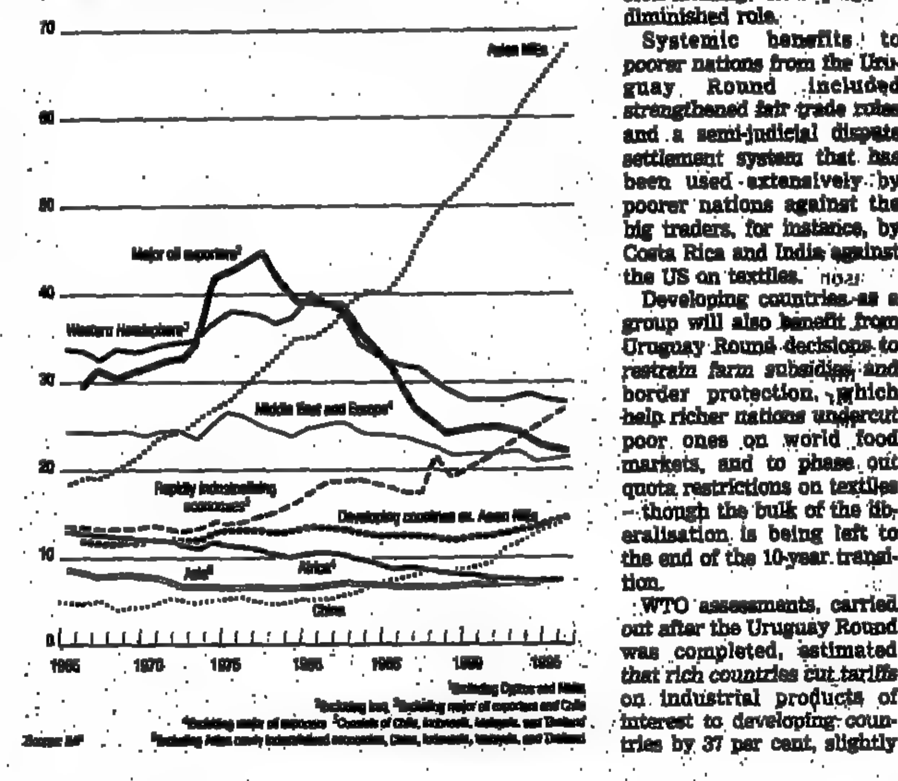
The Swiss are funding office accommodation for the least developed countries (as classified by the UN) and have just set up an office dedicated to helping them with their WTO information needs. Only about a third of the 30-odd LDCs which are WTO members even have offices in Geneva and those that do have to cover UN activities as well.

John Weekes, Canada's WTO ambassador, says if developing countries do not want to be marginalised in the globalising international economy they have no choice but to make a strategic commitment to devote more resources and manpower to trade policy.

Renato Ruggiero, WTO director-general, agrees that poorer nations cannot simply say they want to get off the trade liberalisation bus. "Technological advance and globalisation will proceed anyway", he says. "The process can't be stopped but we need to pay more attention to implementation."

Developing countries and Asian newly industrialised economies (NIEs): relative economic performance

In per cent of current industrial country per capita GDP, purchasing power parity terms



DISPUTES • by Frances Williams

Success brooks no argument

The WTO's settlement process has won the support of all its members

Well-publicised arguments over recent dispute rulings by the World Trade Organisation – for instance, against the European Union's ban on beef hormones or the US ban on shrimp caught in ways that kill turtles – have tended to overshadow the undoubted success of its dispute settlement machinery in resolving trade spats between members.

More than 120 cases have been brought to the WTO since its creation in January 1995, three times as many as were brought to the General Agreement on Tariffs and Trade in its 47 years of existence.

And while the major traders remain the biggest users of the system – the US alone has brought more than 40 complaints – developing countries, too, have brought and won cases, against each other and against the trade superpowers.

This vote of confidence reflects very significant differences between the WTO's disputes mechanism and that evolved under the Gatt.

The WTO machinery operates to a fixed timetable – with no more than 15 months supposed to elapse between filing a dispute and adoption of an appeals body report.

It is also semi-automatic: unlike in Gatt, countries cannot block more than once decisions to send disputes to panels and cannot veto adoption of the findings. They can appeal against panel rulings but the judgment of the appeals body – another WTO innovation – is binding.

Moreover, the WTO panels and appeals body have ruled on disputes by reference to WTO rules and general international law, rather than trying to broker a mutually satisfactory solution. Though this judicial approach has not pleased all WTO members, it is beginning to establish a body of trade jurisprudence to interpret and guide international trade rules.

As a consequence, countries have strong incentives to settle bilaterally, in advance of formal rulings. Most cases are, in fact, resolved during the statutory lengthy consultation period before a panel investigation can be demanded.

Moreover, where disputes have gone all the way through the system to adoption of panel and appellate body reports, countries have, without exception, pledged to comply with the rulings – even though in some instances (such as the European Union ban on hormone-treated beef) there are arguments as to what compliance means in practice.

Failure to comply obliges the offending nation to pay compensation and, eventually, face trade penalties – though, to date, this procedure has not been invoked.

Success invariably brings problems of its own. The avalanche of cases has put the slim WTO secretariat under considerable strain. Delays in translation, for instance, have led to lengthy delays in adopting reports and so in implementing decisions.

This, in turn, has exacerbated another problem – the lack of transparency in the dispute settlement process. Under WTO procedures, panel reports remain confidential until circulated to all members in the three working languages, of English, French and Spanish. But, in practice, they are widely leaked by the parties to the dispute which receive them first.

As a result, governments and interest groups can put their own spin on the reports before the WTO itself can comment or make the report available to the public. Increasingly, the leaks are happening when the panel sends its draft report to the parties for comment, a procedure intended to encourage a bilateral settlement.

Renato Ruggiero, WTO director-general, complained last month that the leaks threatened the credibility and image of the WTO by allowing the organisation to be painted "as the enemy of developing countries, consumers and the environment and as a promoter of protectionism".

To some extent the criticisms reflect little more than the usual gripes of the losing side. However, a few emotive cases have raised more fundamental problems.

One difficult area relates to trade and the environment. WTO rules permit some deviations from normal trade rules where necessary to protect the environment but these have been narrowly cast and interpreted.

In a recent case that has outraged environmental groups, a WTO panel ruled against a US ban on imports of shrimp caught without the use of turtle-excluder devices. In essence, the panel argued that, while protecting endangered sea turtles was a desirable objective, the US did not have the right to require other countries to comply with its specific protection methods.

Shell shocked: the WTO threw out US laws protecting turtles *AP*

Other environmental cases could follow, further increasing pressure on the WTO to change its rules in a way that can help promote common environmental goals without encouraging protectionist abuse. Sir Leon Brittan, EU trade commissioner, has already proposed that this might be a subject for a new round of trade talks in 2000.

Other cases have highlighted gaps or ambiguities in WTO rules. Thus, when a WTO panel ruled against US charges that the Japanese government had conspired with Fujifilm to keep Eastman Kodak out of the Japanese photofilm market, Kodak and others complained that the WTO was condoning protectionist practices.

In fact, the panel took a broad view of its remit but WTO rules on trade simply do not cover anti-competitive practices by private business. Ironically, the US has been a strong opponent of negotiating international competition rules in the WTO, fearing a dilution of its own anti-trust powers.

At the same time, Mr Ruggiero can bless his good fortune that perhaps the biggest threat to the WTO's authority was removed last month when the EU dropped its complaint against US anti-Cuba legislation. The WTO has thereby avoided a damaging head-on clash with a touchy US Congress that could have undermined all its achievements up to now.

US • by Nancy Dunne

Policy on uncertain route

The once-solid support for liberalised trade has been shattered

The outlook for US trade policy is now more uncertain than at any time in the 50 years since the launching of the General Agreement on Tariffs and Trade.

US economic performance is at its strongest since the 1960s, and much of the growth is due to trade. But the once-solid domestic constituency which supported liberalised trade has been shattered.

While the economy looks bright at a distance, the benefits of the prosperity are spread unevenly. For example, real wages, which plunged early in the decade, have just climbed back to 1989 levels.

Washington seems to be at a loss about how to proceed on trade policy. In the past 15 months it has led the way in three important deals – on telecommunications, financial services and information technology – but it has virtually exhausted its so-called "residual" authority from Congress to negotiate further.

An attempt to get renewed "fast track" trade authority last year was defeated in the House of Representatives; senior administration officials have admitted that the effort is not likely to succeed until after the next presidential election, if then.

Even as ministers around the world were making plans to go to Geneva for the Gatt birthday bash, US trade officials were preparing to put on the table "a very broad directive" which had more questions than answers.

The directive avoids the debate over whether to launch a new round of world trade liberalisation talks or a series of smaller negotiations.

Instead, it seems aimed mainly at preventing domestic support for the multilateral system from crumbling further, by placating US lobby groups which are demanding a greater say in the World Trade Organisation's affairs. The directive asks how "civil society" can be brought into the trading system: whether the dispute settlement can be made more transparent and why WTO meetings should be closed.

It is also proposing to alter Gatt tradition by suggesting that companies and outside groups be allowed to submit their own legal briefs in dispute settlement procedures.

The US is also asking how the WTO can develop "rules of the road" for regulatory reform and antitrust enforcement and how the WTO and the trading system should react to the information age.

Early in his administration, President Clinton had few doubts about the way forward. He seized the initiative and persuaded Congress to approve the North American Free Trade Agreement and the new WTO.

Although the president received more support from the Republicans than from the Democrats in the fast track fight last year, the forces of protection and isolation have made inroads in the party this year.

That became clear as Republicans this year retreated from supporting an $18bn cash boost for the International Monetary Fund's finances, even after Treasury officials had assured Congress that conditions laid down by the IMF would force open markets.

Democrats supported the administration on the IMF, but when it came to trade, they insisted that the US engage in further liberalisation only if other countries agreed to bring environmental standards, labour and human rights into the trade negotiating arena.

"We need to use the leverage of our commercial and moral leadership to create a new architecture of trade," said Richard Gephardt, House Democratic leader, recently.

"A blueprint that will create healthy and growing countries while also ensuring that the benefits of this growth are felt by the working people whose efforts bring about the growth. A new architecture that will promote both sides of the coin of 'democratic capitalism.'"

In the Republican party, there is still a group of internationalists which supports the trade liberalisation goals of the Chamber of Commerce, the National Association of Manufacturers and the multinationals.

Presidential veto: no more trade pacts for Mr Clinton AP

They are adamantly opposed to linking labour and environment to the trading system in any way which would hinder business. The stalemate between these Republicans and Democrats has held up fast track since 1995.

Mr Clinton also faces the rise of the conservative populists who would like to withdraw from the WTO today on the grounds that it has required the US to hand over its sovereignty to "faceless bureaucrats."

There was a time when little attention would have been paid to Pat Buchanan, twice a Republican presidential candidate, and his new book: *The Great Betrayal: How American Sovereignty and Social Justice Are Being Sacrificed to the Gods of the Global Economy*. Support for his position is evident in Congressional attitudes towards fast track and the IMF, although it has not yet manifested itself in protectionist proposals.

Mr Buchanan says it was failure to deliver on the Administration's promise that trade pacts would produce thousands of new jobs that turned the American people into sceptics. "Neither Nafta nor Gatt would pass today," he says. "Fast track was defeated for many reasons. But ultimately it was rejected by Congress because Mr Clinton and the free traders had lost the country.

"Mr Clinton vowed to come back early in 1998 to renew the battle for fast track, but in the Republican caucuses in the Senate and House there seemed to be no stomach for the battle, and no confidence it could be won."

Charlene Barshefsky, US trade representative, says a new majority in favour of trade liberalisation can be created only if Americans are convinced they have something to gain besides higher trade deficits.

"How do we get market access?" she says, pointing to various trouble spots in the world trading picture. "India was a founding member of the Gatt in 1947, and its market hasn't been open since. How is that?

"Africa. Trade barriers have increased over the past 30 years not decreased, but most African nations are members of the Gatt system and the WTO. In Japan there is always the question of effective market access, not on paper, but in practice. Korea was also an early member. The IMF has found complete hostility there to inward competition.

"I don't have a policy prescription here but it makes you wonder how these practices have abided in the system for this long. This fundamental question has to be looked at."

Thirty-one countries now have membership applications pending before the WTO. They will discover that the US will no longer approve membership for political reasons but only on sound commercial grounds, Ms Barshefsky says.

"We are more careful of our rights and more careful to ensure that this global trading system which has worked so well for the US continues work well."

The US is expected to run a $200bn trade deficit this year, and some analysts believe it could climb as high as $300bn in 1999. "This seems to be our lot in life," says Ms Barshefsky.

"But we have to be sure that we have substantial export opportunities around the globe. That's the basis on which the constituency for open trade can be maintained here. If those opportunities are not apparent, there won't be any support."

THE AMERICAS • by Stephen Fidler

Tide turns on unity

Defeat of fast track verifies Bolivar's gloomy aphorism on co-operation

The idea of uniting Spanish speaking America dates back to independence in the early 19th century.

But the difficulty of achieving this objective was soon identified by Simón Bolivar, who led the revolution against Spain. Striving for unity in the region, he said despairingly, was akin to "ploughing the sea".

The Liberator's pessimism has not prevented his successors from making periodic attempts at integration. It has taken until the 1990s for the possibility to emerge of an enduring economic integration which would incorporate not only Spanish America but the Portuguese and English speaking countries of the hemisphere too.

At the 1994 Summit of the Americas in Miami, leaders from every country in the hemisphere save Cuba agreed to create a free trade area of the Americas by 2005. At a meeting last month in Santiago a second summit agreed formally to launch negotiations.

Negotiations will go ahead under the auspices of nine groups – on market access, investment, services, government procurement, dispute settlement, agriculture, intellectual property rights, subsidies and anti-dumping and countervailing duties and competition policy.

Trade ministers will meet every 18 months to review and advance the talks.

However, despite the fanfare at Santiago, every leader at the meeting recognised that US President Bill Clinton had failed to secure fast track negotiating authority from Congress.

In other words, the prospect for rapid movement towards the FTAA had disappeared and other countries, notably Brazil, which preferred much slower progress towards the goal had gained the upper hand.

There is a debate among proponents of free trade about how serious this really is. They argue that a multilateral trade round should be the priority if one starts.

From a practical standpoint, the negotiating capability of many countries would be stretched beyond breaking point if they were negotiating both a multilateral trade round and the FTAA.

On top of that, US supporters of the FTAA argue that important trade negotiations have advanced before in the absence of fast track, which allows the US administration to negotiate a deal without having Congress pick it apart line by line afterwards.

Moreover, the unilateral reduction of tariffs and ending of quotas in Latin America over the past decade has already triggered a sharp rise in trade within the region.

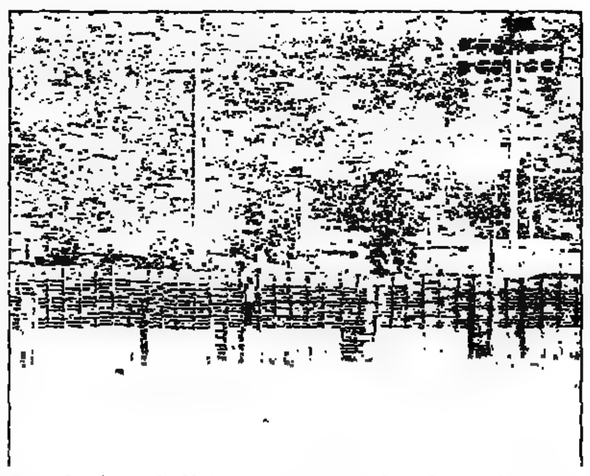
From a US perspective, Latin America is rapidly overtaking the European Union in importance as an export market. Mexico's purchases from the US rival Japan's, while Brazil exceeds China in importance.

The US sells more to Central America than to Russia and eastern Europe combined. Moreover, the US has also provided significantly more than half the region's foreign direct investment since 1990.

However, the developments of the past 10 years have given free traders some cause for concern. Now the Americas are criss-crossed with a patchwork of sub-regional and bilateral trade agreements, some of which may well stand in the way of more open trade rather than helping it.

Some of these agreements, such as the Andean Community, Caricom and the Central American Common Market, are revivals of historic associations, some of which were created in an earlier era of import substitution.

But it is the two trade associations that were created in the 1990s that have been the most dynamic. The first is Mercosur, the common market of the South, established in 1991 by Brazil, Argentina, Uruguay and Paraguay.



Cross-border trade: Nafta opponents see jobs going south AP

Since then Chile and Bolivia have joined as associate members and there is the possibility of a further accord with the Andean Community which would bring together almost all of South America.

The second is the North American Free Trade Agreement, Nafta, which joins Mexico, the US and Canada. This agreement has been the source of much political controversy in the US, which was the real reason why Congress was unwilling to grant Mr Clinton authority for fast track.

According to critics from the trade union movement, Nafta has caused the export of good US jobs to its cheap labour neighbour. Supporters retort that the impact on US jobs has been marginal, and in any case the US economy is running at functionally full employment.

The agreement has increased Mexico's integration into the North American economy. From 1990, when the US accounted for about 70 per cent of Mexican exports, it now represents more than 85 per cent.

This northward orientation has left Mexico in an awkward position with regard to its southern homologues. More significantly, if the US had hoped in 1994, and as many expected, that Nafta would be the first building block upon which the FTAA would be created, this prospect now looks nigh impossible.

Instead, the lack of US fast track, which would in the first place have allowed Chile to join Nafta, means that Mercosur holds more of the cards. Moreover, it has opened space for another actor to enter the fray – the European Union.

Ambler Moss, director of the University of Miami's North-South Centre, says: "US failure is also seen by others outside the hemisphere as an opportunity."

The day after fast track failed the EU announced plans to bring forward its free trade arrangements with Mercosur from 2001 to 2000. Next April an EU-Latin American summit is scheduled for Rio de Janeiro.

Yet, while there is a desire on the part of many Latin American governments to see their growing economic dependence on the US balanced, the EU has its own problems in delivering the kind of free trade accord, including agriculture, that Latin America would want.

The EU has promised reform of its Common Agricultural Policy but is unlikely to do it by the back door of a trade agreement with Mercosur.

Moreover, as Sidney Weintraub at the Centre for Strategic and International Studies in Washington points out, the US imports significantly more in manufactured goods from Latin America than does Europe, which is primarily an importer of raw materials.

EU • by Lionel Barber

Sir Leon holds the line

Admission of countries from the east may change the balance of power

A decade ago the European Union was known as Fortress Europe. The slogan summed up fears that the EU would turn protectionist as a result of the soon-to-be-launched single market.

Today, the EU likes to promote itself as a crusader for the multilateral trade system; an equal of the US and an economic superpower in search of partners in Asia and Latin America.

The turnround is partly due to deft image-making orchestrated by Sir Leon Brittan, the EU's trade commissioner. But it also reflects a genuine shift toward a more liberal European trade policy.

First, a caveat. Europe was never quite as illiberal as its critics claimed but it lost the public relations war in the 1980s.

The Reagan administration – notably Carla Hills, the steely US trade representative – pursued free trade with a missionary zeal. As a result, the EU, burdened with an unreformed Common Agricultural Policy, was thrust firmly on the defensive.

The turning point came with the conclusion of the Uruguay Round in December, 1993. Europe took the lead in the negotiations with the US, drove them forward with Canada and Japan and, in the final stages, corralled the rest of the world into a common accord.

The political and psychological impact was enormous, says Sir Leon, who helped to broker the final deal in Geneva.

"Europe was seen to be a co-partner, with the US, of the largest liberalisation of world trade that there has ever been. Europe was also the co-creator of an effective disputes settlement mechanism."

In the post-Uruguay Round years the EU's position on the international stage has improved at the expense of the US.

The Americans have suffered from tensions between a unilateralist-minded Republican majority in Congress, a Democratic president whose heart is in favour of free trade and a protectionist-leaning labour movement whose votes the Democratic party cannot afford to ignore.

Sir Leon artfully exploited these tensions in 1993-94 during the US dispute with Japan over market access for American car parts. US efforts to attain numerical and quantifiable targets drew European complaints about "managed trade" and "bilateral bullying".

Europe was able to present itself as a friend in need to the beleaguered Japanese.

During the 1995 multilateral negotiations on financial services liberalisation, the Europeans once again moved into a vacuum created by a hesitant US.

Sir Leon persuaded the major powers to keep their offers on the table. He then teamed up with the Japanese – through the much-missed Tomobiko Kobyashi, Japanese ambassador to the EU – to forge a European-Asian consensus in favour of an interim deal.

In other big multilateral trade deals, such as the liberalisation of telecoms (1994) and the lifting of barriers to trade in information technology products (1996), the EU has played a leading role.

More recently, Europe called for a new millennium round to follow up Uruguay, while Sir Leon is simultaneously pushing for freer trade with the US. Earlier this year, he proposed wide-ranging negotiations to create a New Transatlantic Marketplace.

However, the idea has been abandoned - at least in its original form - in the face of intense opposition from France. With the support of the British EU presidency, efforts have been made to salvage at least some of its elements and re-package them in time to be blessed by US President Bill Clinton and EU leaders when they meet in London today.

This initiative, named the Transatlantic Economic Partnership, is expected to include a drive to reduce industrial tariffs to zero across the board, accelerate mutual recognition agreements on standards, testing and certification of products and to deal with vexed issues such as public procurement. But gone are the NTM's proposals for a free trade area in services and a special trade disputes mechanism.

Some, notably the French, argue that the regional trade bloc approach risks undermining the multilateral trade system and is little more than a publicity stunt to light up Sir Leon's twilight months in Brussels. He is expected to leave in January 2000 after 12 years as commissioner.

Sir Leon's retort is that the EU can hardly be accused of pursuing a regional approach when it is a regional player and while other blocs, such as Nafta and Mercosur in Latin America, are forging ahead.

Sir Leon is, nonetheless, stung by the aggressive French opposition to the NTM. He insists that he is sensitive to environmental issues, the needs of developing countries and protecting Europe's cultural heritage.

"We are not thoughtless, mindless fanatics but you cannot defend European civilisation if you lose out on competition. If you cannot afford to do anything or spend anything to keep (cultural) projects going."

The French position on trade has always had a crucial influence on the EU stance but in recent years France has lost ground in the decision-making Council of Ministers, partly because of the accession of the free-trade-minded Nordic countries Finland and Sweden.

This explains why the French government has sought to strengthen provisions on anti-dumping rules, notably in high-profile cases such as imports of cheap cotton.

So far the free traders have just about held the line but the balance may change with the accession of the former command economies of central and eastern Europe.

Although countries such as Estonia and Hungary have proven track records as open economies friendly to foreign investment, others, such as Poland, have been more hesitant about privatisation and more protective of domestic industries.

The first candidate countries are unlikely to become members of the EU until 2002-03 at the earliest. But, as the eastern European economies become integrated with western Europe competition is sure to increase in the internal European market, raising temptations to control market access from outside. The spectre of Fortress Europe may not have been banished

ASIA • by Peter Montagnon

Prescription for recovery

The recent crisis may force governments to open their markets further

One of the worries surrounding the economic and financial crisis that has gripped Asia since the middle of last year is the question of whether economic hardship will make the region's governments more resistant to the idea of trade and investment liberalisation.

With export growth collapsing in many countries in south-east Asia and serious unemployment problems developing as economies slow, the temptation might be to pull down the shutters and stop the gradual process of liberalisation that has been under way for some years.

In fact, the response has, if anything, been the opposite. Some Asian leaders, such as Malaysia's Mahathir Mohamad, have questioned the role of financial markets in aggravating the problem and Taiwan has actively sought to rein in foreign exchange speculation.

But all leaders agreed at the recent Asia-Europe summit meeting in London that maintaining open markets was an essential part of the prescription for recovery.

Indeed, in some cases there are expectations that the crisis will force governments to open their markets further and remove distortions which have inhibited the development of trade in goods and services.

For example, Indonesia had little choice but to agree, under the terms of its International Monetary Fund rescue package, to remove a number of monopolies and end the special privileges extended to its national car programme, on which it has also lost a dispute in the World Trade Organisation.

More significantly, countries under IMF tutelage are being put under pressure to open their markets to foreign investment in the financial sector as part of much-needed reforms in banking and capital markets.

South Korea, for example, has agreed to open its banks to foreign ownership and allow takeovers of its industrial companies by foreigners.

Asia contains two of the world's most open economies in the form of Hong Kong and Singapore, though the latter has come under criticism for its refusal to allow more foreign banks into its tiny domestic market.

Insofar as the crisis leads to a more open environment in the longer-term, it may even come to be regarded as beneficial.

But economists say it would be rash to assume that much will change in the short run and there may well be grassroots resistance to change despite the lip-service which leaders are paying to liberalisation.

Asian countries were already embarking on a liberalisation track before the financial crisis struck. Asean, the Association of South East Asian Nations, has been negotiating a free trade area designed to create one market of 500m people in the region.

Pressure on Asean had grown in the middle of this decade as China began to suck in more and more foreign direct investment, leaving south-east Asia worried that it would be left out in the cold.

At the same time, Asian countries are working towards a regional free trade area in the Pacific with their partners in the Asia-Pacific Economic Co-operation Forum.

The aim is to remove all barriers to trade on a non-discriminatory basis by 2020 for the developing countries and by 2010 for the industrial countries.

That could make Asia one of the most dynamic regions

> The crisis may come to be regarded as beneficial

of the world. But the approach, which relies on peer group pressure rather than a WTO-style negotiation, is slow and cumbersome, with resistance in new areas, such as financial services, and in old ones, such as agriculture.

But, for a number of Asian countries the Apec process remains, for the time being, preferable to the launch of a new global trade round.

Singapore has long been keen for such a round but Japan and Korea are more hesitant. And some of the region's emerging economies are anxious about pressure on them to speed financial sector liberalisation and sign up to more rigorous standards for the treatment of foreign investors.

An important step forward will come when China is finally admitted to the WTO. Improved relations between China and the US are to culminate in a visit to China by President Bill Clinton this summer but it remains doubtful whether negotiations on access will be complete by then.

China has promised not to make the Asian crisis worse by devaluing its currency, the yuan, and some economists believe it has hoped to use this gesture as a means of leveraging less onerous conditions for WTO membership.

In particular, Chinese leaders believe that opening up the banking sector as a condition of WTO entry could cause considerable strain at a time when it is engaged in the sensitive task of reforming ailing state-owned banks.

While these problems remain unresolved, early accession of China to the WTO looks unlikely.

As for the broader picture, Asean is struggling to keep its exports up in the wake of the economic crisis.

Forecasts by the Asian Development Bank suggest only modest growth in exports from east Asia this year, with some of the countries worst hit by the crisis showing the poorest results.

Despite their massive devaluations, exports from Thailand, Indonesia and South Korea are expected to grow by only 5 to 5.8 per cent. The difficulty faced by exporters in securing credit for working capital and for the purchase of imported components is cited as a serious impediment.

In east Asia, only the Philippines is expected to show export growth at the old vigorous rates. The ADB says its exports should grow by 21 per cent this year, reflecting the installation of new export capacity in recent years, the country's low wages and the relative soundness of its financial position.

For other countries it may take some time before the export machine starts to motor again.

Pump primed: red tape was typified by the ban on self-service AP

JAPAN • Michiyo Nakamoto

Noh movement on reform

Liberalisation shares the pace of traditional Japanese theatre but not its impact

Until recently Japanese petrol stations were not allowed to offer drivers the choice of filling their own tanks in exchange for lower prices.

Instead, any car that drove into a petrol station would be surrounded by numerous attendants offering not only to fill the tank but also to wipe the windows and mirrors, empty the ashtray and check the oil, all in exchange for a hefty petrol price.

For years the Japanese authorities insisted that allowing drivers to fill their own tanks increased the danger of fires at petrol stations.

It was not until April this year that, more fires or not, the government finally liberalised self-service at petrol stations and offered Japanese drivers the option of no-frills service at lower prices.

The ban on self-service at petrol stations is only one example of the countless rules and regulations that have kept Japanese prices high and closed the country's markets to greater competition, foreign or otherwise.

Regulations, ranging from stringent licensing procedures for new drugs to non-recognition of foreign product standards, have been blamed by Japan's trading partners for restricting access to markets in the world's second largest economy.

Increasingly, the tens of thousands of regulations binding Japanese economic activity, have also been blamed for hampering the birth of new industries to drive economic growth in a post-industrial age.

The Japanese government has responded to this criticism by launching a series of deregulation packages listing hundreds of changes to the rules.

The latest was announced by Ryutaro Hashimoto, Japan's prime minister, in his meeting with Bill Clinton in Birmingham this month.

The measures have had a significant impact. The markets for mobile phones, long distance and international telephony have become vicious battlefields as new entrants compete for market share.

Deregulation in the housing sector has seen a surge in imported houses. Enthusiasm is such that some companies have sent as far afield as Canada for housebuilders to bring their products to Japan.

However, despite the long list of regulations that have been eased or done away with, the ongoing programme has consistently been criticised as too little and too slow.

In a recent visit to Tokyo, deputy US trade representative Richard Fisher suggested that Japan's deregulation programme was as slow as a Noh performance in which a minimum of movement is used for a maximum of symbolic impact.

"This is appropriate for classical theatre. It is not appropriate for public policy in a dynamic, modern world," he said.

Behind the government's slow pace lies the enormous bureaucratic machinery that has fought fiercely against change.

While some factions in certain ministries have championed deregulation, the determination of others to hold on to their powers has been a key barrier to the rapid and far-reaching change required.

The bureaucrats, who exercise tremendous influence through their regulatory powers, their administrative guidance and their authority to approve or withdraw business licences, are not likely to give up their powers easily.

For example, the ministry of transport requires Japan-registered airlines to have every aircraft test-flown with a ministry official on board. The ostensible purpose is to make sure the aircraft is fit to be flown but, this is "ludicrous", says one airline official.

The rule means that Japanese airlines must use their aircraft for non-revenue purposes and pay a Y1m landing fee just for the test, not to mention the added fuel cost.

Cumbersome regulations also mean it takes foreign pilots about six months to clear Japanese licensing requirements. For Japanese airlines hiring foreign pilots this is a tremendous cost burden.

The failure of Mr Hashimoto to carry out effective administrative reforms aimed at reducing the size and the powers of central government organisations does not bode well for further deregulation in Japan.

Although administrative reform was a pillar of the Hashimoto government, the plan to introduce far-reaching change was largely watered down by bureaucratic resistance.

Furthermore, the government does not appear fully convinced that the inevitable consequences of its commitment to deregulation are a price worth paying. These include corporate failures and job losses in politically influential or strategically important industries such as construction and financial services.

As a result, even after adopting a programme to deregulate a sector, the government has balked at the consequences. For example, having ushered in "Big Bang" financial reforms, the government then proceeded to backtrack.

In an attempt to stabilise the financial sector, the government injected Y1,800bn of public funds into the capital base of 21 banks, including those that may be too weak to survive.

It also approved accounting changes to allow banks to disguise falling asset prices and postponed the implementation of tighter reporting requirements for domestic banks.

In the telecoms industry, where the benefits of deregulation have been particularly notable, a long-lasting effort by the ministry of posts and telecommunications to break up NTT was defeated by pressure from the company and its labour union.

As a result, challenges to NTT's dominance of the domestic market have been hampered by high interconnection charges which the former monopoly, with virtual dominance of the local network, is able to maintain.

The US and the EU have pressed strongly for changes to the rules to lower NTT's interconnection rates, which are three to five times "best practice" rates in other industrialised countries.

As for the cost of building a home in Japan, it is still two to three times higher than in the US despite the steps taken on deregulation in this area.

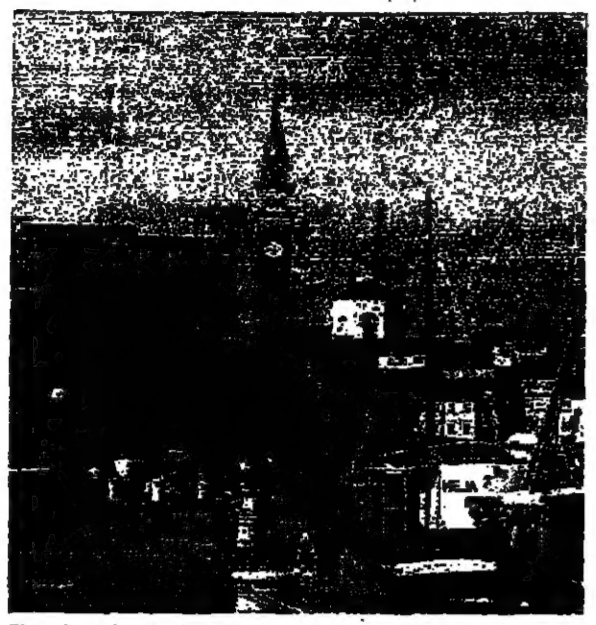
There is widespread recognition in Japan, even among the bureaucrats, that the era of government-led industrial policy is over and that the country needs freer markets and freer trade to sustain economic growth.

But it will take a greater sense of urgency for the government to act more decisively on that conviction.

Slovenia

There are signs that the consensus approach is unlikely to last as EU entry beckons, reports Kevin Done

Facing hard times, great expectations



Piran: boosting tourism revenues Photo: Victor Musel

For its first seven years of independence Slovenia has managed to avoid many of the political and economic shocks suffered by its less fortunate neighbours in central and east Europe.

Starting from a higher level of relative prosperity, it has adopted a much more cautious and gradualist attitude to reform, conditioned by the priority given by successive governments to maintaining social consensus. But there are growing signs that this comfortable approach cannot last.

Chosen as one of the five countries from east Europe to take part in the first wave of negotiations to join the European Union, the pressures are increasing on Slovenia to accelerate a whole series of reforms necessary for building a modern market economy as well as paving the way for its full integration into the EU.

In many ways its position has been enviable. As a small country with a homogeneous population of only 2m, it was able to emerge from the collapse of former Yugoslavia relatively unscathed and without the ethnic strife and political instability that has plagued much of the Balkans.

Even under communism it was one of the most highly developed areas of east Europe, accounting, with less than 10 per cent of the population of former Yugoslavia, for 17 per cent of the country's output and a fifth of exports. With a GDP per capita of more than $9,000 it is much closer to the living standards of some existing EU members than to rival applicants for EU membership from east Europe.

Concerns are growing, that the lack of dynamism is causing Slovenia to lose competitiveness to fast track reform countries such as Hungary and Poland, and that it is failing to close the gap on the stronger economies of the EU.

"Slovenia is a country of lost opportunities. We are losing ground compared with what we could do. We are not in a critical position, but we need changes," says Franjo Stiblar, economics professor and chief economist at Nova Ljubljanska Banka.

After centuries of domination first by the Hapburgs and the Austro-Hungarian empire, and latterly within Yugoslavia, Slovenia sometimes appears reluctant to open its markets to foreign investment, but this has a price. According to SKB Banka, the main private bank, "Slovenia may lose its good position if its economy does not open to foreign investment, which would bring the necessary restructuring, new technologies, training and markets."

Reformist elements in the administration are aware of the need to speed up the restructuring of the economy, and see the challenge of entry into the EU as providing the catalyst – and the alibi – for change. "So far the transition process was very smooth, but we have been running on the gasoline of the former regime," says Igor Bavcar, one of the architects of Slovenia's drive for independence and the man chosen to play an equally central role in the project for EU entry as the minister for European affairs.

"Now we must start to reform our society deeply. Joining the EU is a generator of these reforms." The administration has drawn up its route plan in the shape of its recently published 'Strategy of the Republic of Slovenia for Accession to the European Union'. One of the study's main authors, Janez Potocnik, has recently been appointed the country's chief EU negotiator.

The study lays out a timetable for the next four years for ambitious changes to the existing taxation and pension systems, and for reform of the financial sector, including the privatisation of the state-owned banks and insurance companies. It calls for the deregulation of prices, reform of the public utilities and competitive public procurement, as well as for reform of the enterprise sector and the replacement of distorting subsidies to ailing industries.

Steps, such as the liberalisation of some capital flows, must already occur as part of the conditions set in the EU association agreement, which should come into force by the end of the year. "Our problem is not adopting the acquis communautaire [the main body of EU law and regulations]. It is the development of a modern economy, that can survive," says Mr Potocnik. "We want to be a well-developed market economy, and tax and pension and financial sector reforms are a fulfillment of that goal. These are the costs of our transition and development, not just of EU accession."

Already the timetable is showing signs of slipping. Slovenia is the last of the EU applicant countries to modernise its taxation system and launch VAT (value-added tax). Previous deadlines have already been pushed back, and the VAT system is now only scheduled to start on July 1, 1999.

The battle is also hotting up over pension reform. Slovenia has one of the world's most generous pay-as-you-go pension systems, but demographic trends with an ageing population mean the system is unsustainable and it is threatening to derail the public finances. "Without reforms, in 25 years we would have to cut pensions by 50 per cent or double contribution rates," says Anton Rop, minister for labour.

The planned pension reform has aroused bitter opposition from trade unions, which considers it a divisive attack on the country's cherished system of social welfare. Publication of a White Paper on pension reform provoked the biggest demonstrations seen in Slovenia since independence, and the protests have forced the government to modify its plans and to make the changes less radical.

Inevitably the burden of executing the reforms will place a heavy strain on the working of the coalition government led by prime minister Janez Drnovsek's Liberal Democracy of Slovenia. The government itself could only be put together after months of political wrangling after the election in November 1996 had resulted in a hung parliament.

The coalition combines the centre-left LDS, the dominant force in Slovenian politics for the past six years, with the main opposition grouping, the conservative Slovenian People's party (SLS) with its roots in the rural farming community and close ties to the Catholic Church. The government includes, too, the small DeSuS pensioners party.

The price of forming this apparently fragile coalition has been an often laborious decision-making process, and the coalition is still to prove it is capable of implementing the reform agenda.

In addition to the challenge of finding political consensus inside the government, steps are also urgently needed to speed up the legislative process and overcome the logjam of new laws under consideration in parliament.

Mr Rop estimates there are currently around 200 laws in the parliamentary process, and the burden can only grow as Slovenia shoulders the heavy burden of harmonising its legislation with the 80,000 pages of the EU's acquis communautaire.

The coming years will provide a stern test of Slovenia's young democracy, and its readiness to act on a wider stage. President Milan Kucan, who was re-elected in November for a second five-year term is optimistic that the necessary compromises can be made. "No party would take responsibility for Slovenia not entering the EU. If the Luxembourgers, the Dutch and the Portuguese have not lost their identity, then we will not lose ours. But if Germany, France and the UK have lost some of their sovereignty, then of course we Slovenes will lose some too."

- Area: 20,273 sq km
- Population: 1,991,169 (1996 est)
- Language: Slovene
- Currency: Tolar (T)
- Exchange rate: 1997 average $1 = T165.0228; May 11 1998 $1 = T164.9584
- Main towns & population (1995): Ljubljana (capital) 270,000; Maribor 134,000; Novo Mesto 51,000

Constitution

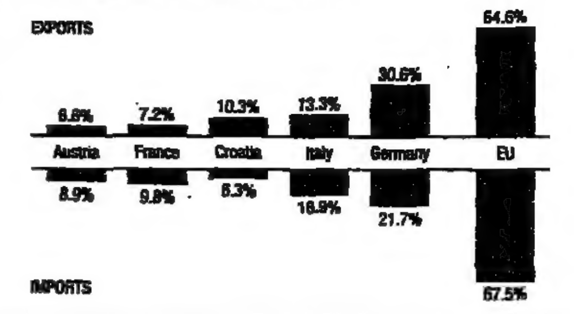
- **Official name**: Republic of Slovenia
- **Form of state**: Democratic republic
- **Legal system**: Based on constitution of 1991
- **Head of state**: President, currently Milan Kucan, elected for five years in December 1992, re-elected in November 1997
- **National legislature**: The main legislative body is the National Assembly, with 90 members, directly elected for a four-year term. A Council of State, elected for five years, with the power only to delay legislation, has 40 members, 22 representing local interests, 12 evenly divided between employers, employees and the self-employed, and six representing non-economic activities
- **National elections**: November 10 1996; next election due by November 2000
- **National government**: The president proposes a prime minister to the National Assembly after consultation with the parliamentary groups. Final power of appointment of prime minister and government rests with the assembly. The present government is a three-party coalition

Economic summary

	1998 (forecast)	1999 (forecast)
Real GDP growth (annual % change)	3.3	2.7
Private consumption (Real % change, year-on-year)	2.9	2.7
Public consumption (Real % change, year-on-year)	4.0	3.5
Gross fixed investment (Real % change, year-on-year)	5.8	6.0
Exports of goods and services (Real % change, year-on-year)	6.0	7.8
Imports of goods and services (Real % change, year-on-year)	5.9	6.5
Inflation (annual % change in CPI)	8.4	7.5
Industrial production (annual % change)	1.3	1.9
Interbank market rate (%)[1]	10.0	10.0
Current account balance ($m)	-32.4	-92.0
Current account balance (% of GDP)	-0.2	-0.4

[1] Average of daily and overnight rates

Main trading partners (share of total trade to world 1996)



Source: EIU, Datastream/ICV

Negotiators are kitted out for the Brussels marathon

On a cabinet in his office as director of the Institute of Macroeconomic Analysis and Development (IMAD) Janez Potocnik has a black attache case labelled "Negotiating Kit".

A gift, it marks his recent appointment as Slovenia's chief negotiator with the European Union (EU), and it is supposed to contain all he needs to cope with the challenges that lie ahead in Brussels.

There are some air sickness bags for the endless commuting, a cardboard cellular phone for emergency communication with Ljubljana – "I was the only person in Slovenia without a mobile telephone" – two whisky miniatures, heart tablets and a bottle of bitters to help with the morning after. And there is a mug for someone who is "One in a million."

Perhaps it should read "one in two million". With one of the smallest populations of any of the countries that have applied to join the EU, Slovenia must create an administration and a negotiating machinery that can be a match for its larger neighbours and for the bureaucracy in Brussels.

Janez Potocnik negotiates while Igor Bavcar looks after European affairs Victor Musel

Mr Potocnik, a youthful 40-year-old and one of the country's leading economists, has already played an important role in the analysis of Slovenia's economic transformation since independence. He has been instrumental in preparing economic strategy documents, that laid the foundations for the signing of the country's association agreement with the EU in 1996 and for Slovenia gaining its place among the five frontrunners from central Europe for full EU membership.

While Mr Potocnik will lead the negotiating team, the key role within the government of minister without portfolio with responsibility for European affairs has been given to the burly figure of Igor Bavcar, a man with a formidable reputation for his powers of motivation and skills in organisation.

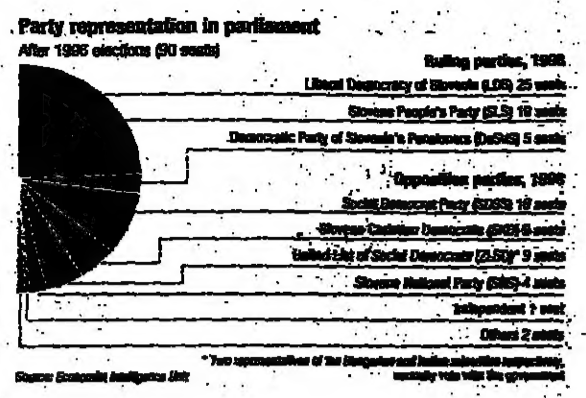
Mr Bavcar, 42, one of two vice presidents of Liberal Democracy of Slovenia (LDS), the leading party in the coalition government, marked himself out for his present job 10 years ago with the leading role he played in Slovenia's march to independence in the so-called Slovenian Spring. In 1988, as a former student activist, journalist and entrepreneur, he organised and became president of the Committee for the Protection of Human Rights. He emerged as Minister of Internal Affairs in 1990 in the DEMOS coalition which swept to power in Slovenia's first free elections ending 45 years of Communist party rule. Mr Bavcar then led the government body working on the project for Slovenia's independence and was chief of Slovenia's defence headquarters, co-ordinating the police and the territorial defence forces in the 10-day war against the Yugoslav National Army in 1991.

K.D

Kucan: a guiding hand

Drnovsek: coalition pressures

Podobnik: "consensus is tiring"



Source: Economist Intelligence Unit

* Two representatives of the Hungarian and Italian minorities respectively, normally vote with the government

POLITICS • by Virginia Marsh

'Grand coalition' pushes on

The centre-left is learning to live with conservative partners

It has not been easy for the Liberal Democrats, the centre-left party that has dominated post-independence politics in Slovenia, to govern with its former opponent, the conservative People's Party. But most observers now believe the unlikely "grand coalition" put together to break a political deadlock 15 months ago after hung elections will run its full four-year term.

The price for the Liberal Democrats – led by Janez Drnovsek, a one-time president of Federal Yugoslavia – has been living with sometimes painfully slow decision-making and accepting its partners' populist, less technocratic approach.

"We are relatively young but we've been in government six years and we believe we really know how to do the job," says Anton Rop, labour minister and a party vice-president. "The People's Party is new and less experienced, even if many of its members are older. It is a rural and populist party and the problems of farmers are very important for them."

"Maybe we are too fast for the People's Party," says Igor Bavcar, European Affairs minister and the Liberal Democrats' other vice-president. "But we think there is no time for waiting. Important reforms are in front of us."

The third element in the coalition is the Democratic Party of Slovenia's Pensioners, formed to support the interests of the country's 450,000 pensioners in the face of looming pension reforms. It took five seats in the November 1996 elections, while the People's Party won 19 and the Liberal Democrats 22, giving the coalition a slim majority in the 90 strong national assembly.

The opposition includes the Social Democrats and the Christian Democrats – the People's Party's allies before it broke ranks to join the government. The United List of Social Democrats, which like the Liberal Democrats includes former communists, is the main left-wing opposition party.

The parliamentary polls were followed in late 1997 by presidential elections which saw Milan Kučan – the former communist leader who guided the country to independence in 1991 – re-elected for a second five year term.

"Work in the coalition is tough but there is a constant dialogue between the partners," says Janez Podobnik, speaker of parliament and the People's Party's candidate against Mr Kucan. "But it's very tiring because agreements are never reached by majority vote, but by consensus, this approach is strengthening the coalition. This sounds like a paradox but it's really true. All partners are exposed to the differences and this somehow strengthens the coalition."

Mr Podobnik – whose brother, Marijan, is deputy prime minister – accepts legislation needs to be adopted much more quickly if Slovenia is to meet its target to be ready for accession to the European Union by 2002.

"The crucial issue is whether we can change the proceedings to allow one instead of three readings [for bills]," he says, adding he hopes this can be done with the support of the opposition.

Involving the opposition – after years out of government itself – is one of the party's plus points, say observers. But the party's critics accuse it of lacking vision, in contrast to the Liberal Democrats which appear firmly committed to leading Slovenia into the EU and Nato.

"The People's Party is a significant brake on progress. It is prepared to put party interests above national ones," says a senior diplomat. "It's pro-EU on paper but then also seems to support the idea Slovenia can survive on its own. And as far as meddling in the economy it has certainly been sending the wrong signals to Brussels."

Among other things, the party is blamed for jettisoning Asea Brown Boveri's takeover last year of a local turbine manufacturer – a company that is now struggling to survive.

"One of the sad stories of the moment is that the People's Party has decided it needs support in the companies if it is to be strong," says a local businessman. "The problem is the people it is appointing to companies – and to government – are the most populist and the least qualified."

Analysts put this down partly to the party's determination not to be marginalised like previous coalition partners of the Liberal Democrats.

"The Liberal Democrats are very slick operators and the People's Party has made a push to make a mark on the coalition to avoid the mistake of the Christian Democrats which were marginalised," says a diplomat. "But their presence has broadened the political spectrum, helping create some kind of national reconciliation – the coalition includes old and new, insiders and outsiders."

As pension and other social sector reforms move to the top of the agenda, Mr Rop says the most problematic change from the previous coalition is no longer having the left-wing United List in government.

"The United List is close to the trade unions," he says. "It is easier for more left-wing governments to make welfare reforms as it deprives the unions of a political reason to be against the changes."

FOREIGN POLICY • by Kevin Done

Aspiring to take on a bigger role

Plans to integrate with the west are progressing but home fires must still be tended

The recent start of the official negotiations for Slovenia to become a full member of the European Union marks a momentous step for the country, which only gained independence seven years ago following the collapse of former Yugoslavia.

Its inclusion as one of the five first-wave EU candidates from central Europe has brought the country a step closer to fulfilling one of its key strategic foreign policy aims and has compensated for the disappointment of its failure last year to join Hungary, the Czech Republic and Poland in the first round of the enlargement of the Nato defence alliance.

Slovenia's progress on to the world stage has been helped too since January by its selection as one of the non-permanent members of the Security Council of the United Nations for a two-year term. Its diplomatic resources are being stretched, but the seat in the higher councils of the UN is helping to raise its political profile.

It failed the Nato hurdle last year in part because its admission became linked to that of Romania in the political horse-trading among Nato members. According to diplomats there was also some unhappiness, however, that Slovenia, in its rush to push its integration with the west, had turned its back on the Balkans and was failing to pay sufficient attention to its role in south-east Europe, Nato's most troubled flank.

Its participation in the Nato-led SFOR operation in Bosnia, in peace-keeping in Cyprus and last year in the Italian-led action in Albania have started to redress the balance, however. And Slovenia has recently added a trilateral co-operation with Austria and Croatia to the existing trilateral initiative with Italy and Hungary, as it deepens its regional links.

The position at the UN is also providing an opportunity for Slovenia to safeguard its interests in its still thorny relations with the Federal Republic of Yugoslavia (Serbia and Montenegro). It is alone among the states that emerged from former Yugoslavia in not having established diplomatic relations with Belgrade.

At stake is the protracted struggle over the division of the assets of the war-torn former Yugoslavia. Slovenia, along with Croatia, Macedonia and Bosnia-Herceguvina, insist that Yugoslavia was dissolved and that all five are successor states, rejecting Belgrade's claims that the other states seceded and that it is the sole successor.

Boris Frlec: optimistic

Despite this intractable problem economic links between Slovenia and Yugoslavia are growing, and two-way trade now totals around DM200m a year, says Mr Boris Frlec, Slovenia's foreign minister. Practical diplomatic and consular contacts still have to be handled between the two countries' embassies in neighbouring Hungary, however.

The legacy of their recent shared history still burdens Slovenia's dealings too with neighbouring Croatia. Mr Frlec says relations are "friendly and co-operative", but they were not helped by the arrest just inside Croatia earlier this year of two Slovenian military intelligence officers, an incident that led to the resignation of the Slovenian defence minister.

The border between the two countries is still not fully delineated with the maritime boundary in Piran Bay in the Adriatic proving particularly sensitive. There is a dispute over the price to be charged for electricity generated at the jointly owned Krsko nuclear power plant located in Slovenia, and Mr Frlec says that Croatia is still blocking Slovenians' rights to use about $3bn worth of property owned in Croatia, in particular the holiday homes of Slovenian companies.

Such issues are dwarfed, however, by the magnitude of the task Slovenia now faces to prepare itself for membership of the European Union.

In order to take on the acquis communautaire, the body of existing EU law and regulations, around 80,000 pages of EU legislation must be translated. Where Slovenian law must be harmonised with EU legislation, a great number of new laws must be prepared and passed through the slow-moving Slovenian parliament, which already faces a legislative logjam.

"We hope we will be ready by the end of 2002," says Mr Frlec optimistically. "Whether the EU itself is ready to accept newcomers by that date is another question."

Despite the concerns of EU diplomats about delays in making some key appointments, Mr Frlec claims that Slovenia has now put in place most of the institutional mechanisms in the public administration to cope with the negotiations.

An Office for European Affairs has been created under the new minister for Europe, Igor Bavcar, and 31 working commissions headed by state secretaries from the various ministries are being set up to respond to the structure of the acquis in sectors ranging from agriculture, science and technology, and education to financial services, industrial policy and transport. And the negotiating team is now in place led by Janez Potočnik, director of the main economics institute.

"It is not easy," says Mr Bavcar. "We are a young country, our administration is young. We are both building the administration and putting together the negotiating structure."

ECONOMY • by Kevin Done

Early advantages lost

In spite of some gains, trailing institutional reforms may hinder recovery

Helped by the recovery of activity in its main export markets in west Europe the Slovenian economy performed more strongly than expected last year. The latest official estimates have been revised upwards to suggest an increase in gross domestic product (GDP) of 3.8 per cent and the government is forecasting similar growth of around 4 per cent this year.

In many respects Slovenia has achieved a better economic balance than any of its rivals in central and east Europe. It is the only one of the 10 candidate countries from the region with a balanced current account of the balance of payments, and the government budget has only begun recently to incur a small deficit.

The rate of inflation at 8.8 per cent year-on-year in December was lower than in any of the five front rank countries from central Europe selected for early negotiations on full membership of the European Union, and unemployment, using western measurement methods, is little more than 7 per cent. The level of public sector debt is well within the Maastricht criteria for economic and monetary union.

Slovenia is the highest rated credit risk in the region and the only one of its peers to enjoy A grade credit ratings from all three leading international rating agencies.

Last week it broke ground for the region in the international capital market by issuing the first eurobond to be denominated in euros (it was launched in ecus but will be transformed into euros when the new European currency launched).

That is the good news. The bad news is that at the level of enterprise restructuring and institutional reform Slovenia has been lagging. And it began with some considerable advantages.

At the start of the transition to a market economy, it was the most developed region of former Yugoslavia, accounting for a disproportionate share of the country's foreign trade. It is easily the most prosperous of the former communist countries of east Europe with a GDP per capita well in excess of $9,000 putting it on a par with some of the poorer existing EU countries.


France Arhar: cautious

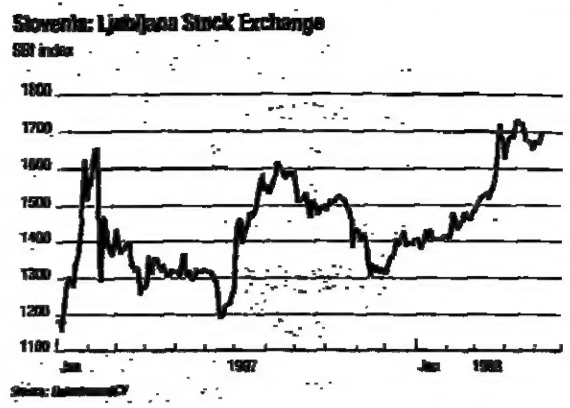
Nevertheless, many of the country's leading economists are concerned that it has failed to make the progress it should have made towards building a modern, internationally competitive market economy. They are hoping that the pressures of negotiating entry to the EU will act as the catalyst for change and will inject the sense of urgency that hitherto has been missing.

Slovenia has not yet introduced many of the reforms that have been completed elsewhere in the region. It is the only one of the EU candidate countries that has still not introduced VAT (value added tax) – after several delays the government is now aiming for July 1, 1999 and for two rates of 19 and 8 per cent – and it has been slow to grasp the nettle of pension reform, a delay which has both hindered the development of the capital markets and is threatening to blow a big hole in the government budget.

Already last year the need to finance the growing deficit in the pension system helped to push the consolidated budget into a deficit for the first time of 1.1 per cent of GDP and this will only narrow slightly this year to 1 per cent according to Milan Cvikl, state secretary at the finance ministry.

Mr Cvikl says that reforms to Slovenia's pension and social welfare system are crucial, if the growth of the economy is to be speeded up. Tax and pension reforms must be followed by further reforms in health and education. "Keeping the public finances in balance in coming years will be very difficult without serious reforms."

Slovenia: Ljubljana Stock Exchange



With much of the economy still index-linked and further price deregulation still needed, inflation is no longer falling. The pace of privatisation has lagged behind in Slovenia. Major steps must still be taken to privatise the two state-owned banks, insurance companies, the utilities, telecommunications, transport companies and remaining state-owned industries, while a widespread fear of selling out to foreigners continues to deter foreign investment.

Competitiveness is also hampered by restrictions in the financial sector, which have kept interest rates at a high level. The highly conservative central bank led by France Arhar, accepts that capital flows will have to be liberalised as part of the EU integration process, but it is reluctant to relinquish controls, while inflation and interest rates are still out of line with west Europe.

With such a small monetary base its central concern is that speculative capital inflows will only further exacerbate its problems of fighting inflation and the appreciation of the currency, which in turn will undermine competitiveness of the country's exporters.

BANKING • by Kevin Done

Sell-offs may revitalise sector

Coalition government divided over how to proceed on privatisations

Protected and inefficient, the banking sector in Slovenia is ripe for restructuring. Only the timing is in doubt.

With 28 commercial banks for a population of 2m, it is generally accepted that Slovenia is overbanked, and the pressures for change are growing. Foreign banks, still thin on the ground, are expected to play a bigger role, as the country becomes more integrated with the European Union.

Foreign capital flows must be liberalised within four years of Slovenia's EU association agreement coming into force, which is expected by the end of this year.

The most pressing issue is the privatisation of the two state-owned banks, Nova Ljubljanska Banka, the country's biggest bank, and Nova Kreditna Banka Maribor, which is needed to kick off the restructuring.

The rehabilitation of the two banks, which together account for around 40 per cent of the assets of the banking sector, was completed last summer. But the next step of privatising the banks has opened a political minefield and the coalition government remains divided on how to proceed.

Frustrated by their inability to accelerate the consolidation of the banking sector, the managements of the country's two biggest banks Nova Ljubljanska Banka and SKB Banka, Slovenia's largest privately owned bank, have tried in recent weeks to force the government's hand.

Previously it had been assumed that these two banks would lead efforts to consolidate the large number of regional and local banks and would provide the main focus for future competition. But in mid-March the management boards of the two banks made the shock announcement that they had signed a letter of intent to begin discussions themselves on a merger.

They said the move had been prompted by "the intensive processes of bank globalisation and that circumstances in Slovenia have matured to enable more determined and faster transformation of banks in order to improve their competitiveness."

The authorities have reponded with an eerie silence. But it appears that there are misgivings, not least within the finance ministry and the central bank at a move which could both reduce the amount of money that would flow to the budget from a more straightforward sell-off of NLB, and would reduce domestic competition.

Together NLB and SKB would control more than 40 per cent of total banking assets, although NLB is already more than double the size of SKB.

After the initial excitement Andrej Cetinski, deputy chief executive of SKB, admitted last month that "the government is not likely to approve the merger soon."

Why did NLB, which has the government as its shareholder, agree to issue the letter of intent? Marko Voljc, NLB chief executive, says that the bank's management received "clear signals" from its new supervisory board in the third quarter last year, that it should press ahead to increase its market share both through organic growth and through mergers with other domestic banks.

"To get a faster increase in our market share we would have to look at targets for acquisition, but there was no serious willingness from any of the small regional banks we approached," says Mr Voljc.

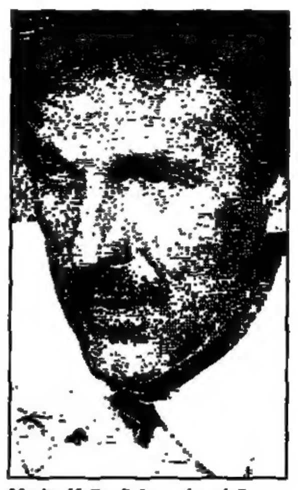
It was contacted by SKB and preliminary calculations suggested that the merger could be attractive. After sounding out the government informally, the banks decided to put the proposal to the Ministry of Finance.

"We have not received any response yet," says Mr Voljc, who admits to being surprised by the "cool reaction".

NLB has recently submitted to the government a model for its privatisation similar to the one chosen for last year's sell-off of Bank Handlowy in Poland. It would include both domestic and international IPOs (initial public share offerings), and the sale of up to 25 per cent to a small number of strategic foreign investors who could provide know-how and market expertise.

Mr Voljc insists that "there is no conflict between this model and a merger with SKB," but he is still waiting for guidance from the government on whether the talks can proceed.

"The managements see eye to eye on the challenges facing the two institutions. If they (the government) can think of a better solution, OK, but we want their reaction. Not doing anything is the worst of all the choices."


Marko Voljc: "clear signals"

CAPITAL MARKETS • by Virginia Marsh

Renewed interest but only in the long term

The market has not yet digested what it will receive from privatisations

The Ljubljana Stock Exchange (LSE) has bounced back this year, rising nearly 14 per cent in dollar terms in the first quarter after a rocky 1997 following central bank restrictions on foreign portfolio investors.

"Slovenia again became interesting for foreign investors but for those with a long term view," says Drasko Veselinovic, the exchange's president.

The SBI index slumped 20 per cent last spring after foreign portfolio investors were obliged to use expensive custody accounts at authorised local banks. This was later relaxed but only for foreign investors not selling their investments into the local market within seven years. Sales to other foreign investors, however, are permitted without incurring the custody charges.

"The market is foreign demand driven so these rules don't make that much difference in practice," says Janez Klobcar of Publikum, one of the largest local brokerages.

He says the main impact has been on sentiment: "The market is undervalued by about 15 per cent because of the restrictions."

While foreign investors have come back, their main focus has been Krka and Lek, the country's blue chip pharmaceutical companies, says Mili Kus, managing director of Eastbrokers in Ljubljana.

"There are a lot of local companies with excellent financial results but interest is almost exclusively in the pharmaceuticals, partly as they are the most liquid stocks in an illiquid market," she says.

The two account for 40 per cent of the SBI and their strong performances – they were up 41 and 36 per cent respectively in the first quarter – are mainly responsible for the index's recent rise.

Bank Austria-Creditanstalt expects the SBI to keep moving upwards and to reach 2000 points, this year, up from about 1700 in early May and 1380 at the start of the year when the equity part of the market was capitalised at about $1.85bn.

The smallness of LSE, however, masks considerable activity elsewhere in local capital markets.

The first phase of privatisation is close to completion, putting companies generating some 30-40 per cent of GDP into private hands. Individuals were given vouchers to be exchanged for shares either in the company where they worked, at a discount, or at auctions for shares in other companies. The third option was to place vouchers in investment funds which in turn could pool them and bid for shares – similar to the system in the Czech Republic.

The surprise was that about two thirds of the population decided to invest all or some of their vouchers in the funds which ended up with 56 per cent of the vouchers issued.

"The regulators had expected the funds to get only about 20 per cent," says Stanislav Valant, a former banker who heads Nacionalna Financna Druzba, one of the biggest fund managers.

Problems have arisen partly because the state failed to allocate enough shares to match the vouchers issued. Under recent legislation, the government must settle this by the summer and Mr Valant says the matter will be hotly debated.

The funds are pressing the government to allocate them stakes in the remaining state-owned companies, jewels of the Slovenian economy like the port of Koper, Ljubljana airport and Telekom Slovenije and other utilities.

But the government would prefer to sell such assets for hard cash, if it sells them at all, and is also reluctant to give more economic power to the investment funds whose reputation is mixed.

"Some of the banks did not establish fund management companies to make a profit but to influence companies to use their bank services," says a local broker. "Many of them are also associated with political parties and local interest groups."

In the best cases, funds – which have begun to build up holdings in companies by trading stakes between themselves – are beginning to exercise some much needed corporate governance at companies, many of which are part-owned by management and employees.

But others are taking advantage of the lack of transparency and market information – the vast majority of the newly privatised companies are not listed – by buying shares from individuals at low prices and selling them on for large profits.

While there is concern at such developments in the grey market, the exchange itself is considered sufficiently regulated. Although voucher privatisation is providing it with a steady stream of companies for listing, it suffers from insufficient buyers as small investors cash in their holdings.

Mr Veselinovic says this means it is virtually impossible for companies to raise funds locally through IPOs.

"The market wouldn't swallow extra amounts of stocks," he says. "Maybe by the end of next year it will start to digest what is coming out of privatisation."

PENSION REFORM • Virginia Marsh

Retirement mooted for scheme

Reforms are needed to prepare for the 'shock' of ageing baby boomers

From the president down, there is a consensus within the Slovenian government that an overhaul of pensions is among the two or three most pressing reforms the country faces.

As in many European countries, Slovenia's pay-as-you-go state pension scheme – is clearly unsustainable. Reforms are needed to prepare for what the World Bank describes as a looming "demographic shock" when the baby boom generation retires after 2010.

The dependency ratio – the number of active persons compared to the number of pensioners – is set to rise to 1:1 by 2022, from about 1.6 to 1 at present. And it is estimated that, without reforms, the scheme's deficit would quadruple to a whopping 15 per cent of GDP by 2035.

At the same time reformers recognise the development of pension funds can both compensate individuals for cuts in the existing system and support the fledgling capital markets.

While Anton Rop, minister of labour, family and social affairs, insists reforms will be adopted this year, the government's plans have already been partly blown off course by strong resistance from trade unions.

Unlike in neighbouring Hungary where pension reform was railroaded through despite widespread opposition, the government has given in because it aims to build a broad social consensus on major reforms.

It last month decided to abandon, for now, the so-called second pillar, designed to add a mandatory funded element to the state scheme, after the unions organised demonstrations against it.

The second pillar would have involved diverting 6 percentage points of the 24 per cent social security levy on wages, to pension funds. It would have been compulsory for new entrants to the scheme, while those already contributing could have opted to join it.

"The unions claimed pension funds would serve capitalists, there would be no guarantee of payments and that the second pillar was a trick to reduce pensions," says a local pensions specialist.

An additional problem was that the funding to cover the transition costs of introducing a new system disappeared when the government opted for lower than planned rates of value-added tax - 19 and 8 per cent instead of 22 and 9 per cent respectively.

"I am disappointed [at the delay in the second pillar] and especially at the attitude of the trade unions," says Mr Rop.

In the meantime, the government is concentrating on reforming pillar one, the pay-as-you-go system.

Perhaps the most important of the planned changes is raising the retirement age. At present men retire at 63 after 40 years service and women at 58 after 35 years, although it is possible to qualify for a full pension at 58 and 53 respectively.

The white paper on pension reform, published last November, calls for lifting the age for both sexes to 65, in line with most OECD countries. But increasing the retirement age for women to this level has been resisted by the unions and it is now expected to be raised to 63.

Dusan Kidric of the Institute of Macroeconomic Analysis and Development, one of the paper's main authors, says raising the retirement age to 65 would be the most effective of the planned changes in the short-term. Even raising the retirement age by just four months every year would make the current system sustainable until 2012.

Pillar one pensions are also set to become less generous. According to the World Bank, Slovenia's pension benefits relative to wages are among the highest in the world. Pensioners receive 75-85 per cent of their average wage, indexed to account for increases, in their ten best-paid working years. There are plans to extend the 10-year period to 25 and also to reduce the accrual rate.

The white paper suggests cutting the rate from about 2.1 per cent to 1.5 per cent a year, meaning individuals working 40 years would receive 60 per cent of their average wage as a pillar one pension. But Mr Rop says an accrual rate of 1.75 per cent is now more likely.

Although not all the white paper's recommendations have been accepted, Mr Rop says he has taken heart from the coalition's commitment last month to proceed with pension reform.

"What is now for sure is that we will execute pension reform. All the coalition parties really believe we have to do that."

WINE AND TOURISM • by Virginia Marsh

Attractions of a different vintage

Aim is to move away from image as a mass market, package holiday destination

A vast concrete wine vat is an unlikely setting for an upmarket restaurant. But with the help of some clever architects, Vipava 1894, one of Slovenia's leading wineries, has turned some old plant into an attractive dining area that has become a popular spot for wedding receptions.

"We've started to do more promotions – organising school trips and visits and wine-tastings for tourists," says Damijan Skvarc, commercial director. "The industry has problems as wine consumption, traditionally very high in Slovenia, has been falling in the last three to four years."

The winery takes it name from the country's first wine co-operative set up in 1894 in Vipava, a small town in a wide and fertile valley in south-west Slovenia, between the alpine and Mediterranean parts of the country. It has some 300 ha of vineyards of its own, out of 2000 ha in the valley – sadly soon to be disturbed by a motorway – but also processes grapes from the mainly small landowners who farm the rest.

The winery, which is mainly owned by farmers and employees, has capacity to produce 18m litres of wine a year but has rarely produced more than two thirds of this, and now makes 8-9m litres a year.

With wine consumption falling at home, finding new markets abroad has become more important. Vipava 1894 was Slovenia's biggest wine exporter last year, accounting for about 600,000 litres of the 1m-litre total.

"At the moment it's not so necessary for us to export as we have a good position locally. The market is protected but import tariffs are due to go down," says Mr Skvarc. "We estimate local producers will lose 30 per cent of the market to foreign wines. People know we have good wines – the problem will be the price. Other countries will come here with cheap wines because of overproduction in Europe."

The looming competition means production of higher quality rather than table wines is being increased, as are efforts to develop wine tourism.

"We're moving back to traditional methods like using more wood for storage, partly because of the tourist groups," says Mr Skvarc. "If people visit us, they are more likely to buy our wines in future."

Slovenia is increasing production of quality wines and developing wine tourism Photo: Wear Most

The winery produces classics – white wines such as Sauvignon and Chardonnay and reds like Merlot and Cabernet Sauvignon – as well as local varieties such as white wines Zelen, Pinela and Rebula.

At lunch, the restaurant serves a Zelen 1996, a delicate light dry wine with a plate of prsut – prosciutto in Italian – one of the specialities of the Karst region.

Among other things, this dry, weatherbeaten region, sandwiched between the Vipava valley and the Adriatic coast, is known for its cuisine. Every year, for eight days in late April and early May, it is traditional for farmers to open their gates to visitors who can sample smoked hams, cheeses, wines and other home-made produce.

For tourism promotion purposes the Karst region is coupled with Slovenia's 40km long coast. Here the main attraction is Piran, Pirano in Italian, one of many beautiful towns built on the Istrian coast by the Venetians who colonised the area from the 13th century.

According to Rok Klancnik of the Slovenian Tourist Board, the coast and Karst region accounted for 25 per cent of visitors to Slovenia last year. It was second in popularity only to the mountains and lakes category, which covers the northern part of the country, home to the Julian Alps.

In all there were 975,000 foreign visitors in 1997, a 17 per cent increase on 1996, with more than half coming from Italy, Germany and Austria. Hard currency revenues from tourism totalled $1.18bn.

Most of these estimated 2.5m foreign visitors each year to local casinos – casino tourism provided 1[illegible] per cent of the sector's revenues in 1997 – do not show up in the official statistics which only cover those staying overnight.

The introduction of concession fees for casino operators, however, is set to boost the fortunes of the tourist board. It is due to receive 48 per cent of the fees, a move that Mr Klancnik says could lift revenues to over DM8m a year, up from DM5.5m.

This should enable more spending on needed promotion. Although a very beautiful country with a great variety of landscapes and cultures packed into a small, green corner of Europe, Slovenia, as an independent entity, is a relative newcomer on world tourism markets. It is also trying to change its lingering image as a mass market, package holiday destination, left over from the days when it was one of the main targets for tourists visiting former Yugoslavia.

PROFILE **Mercator**

Celebrations turn sour

Eighteen months ago Mercator, Slovenia's largest retail company, was celebrating with foreign bankers, as it broke new ground by raising Dm140m in the first international syndicated loan arranged for a Slovenian private sector company.

But the celebrations have turned sour. The management board was dismissed last year by the supervisory board in a coup engineered by representatives of middle management and the workforce.

The banks led by the European Bank for Reconstruction and Development and Union Bank of Switzerland have disbursed only the first Dm17.5m tranche of the loan. The facility is currently frozen, as the financial institutions still wait for [illegible] audited results for 1997 – it made a loss – and for details from the new management team of its strategy.

The events at Mercator provide a cautionary tale of foreign investors and bankers and highlight the considerable problems of lack of transparency and poor corporate governance that are still to be overcome in the new private sector.

Privatisation has been a long, drawn-out process. In many companies control has ended up with managers and the workforce through management and employee buy-outs. And in large companies such as Mercator, which were too big for such buy-outs, there is a far-reaching system of co-determination with workforce representatives holding 50 per cent of the seats on the supervisory board.

It is a system that can prove unstable, when managements set out to implement drastic restructuring measures.

Zivko Pregl, the former Mercator chief executive, had embarked on just such a course with assistance provided by a group of former managers from Asda, the UK retail group. The plan, which won the strong backing of the banks, aimed to consolidate the scores of local and regional Mercator subsidiaries into a unified group with a coherent management structure, to develop hypermarkets and larger supermarkets while closing smaller uneconomic outlets, and to sell off non-core operations.

"I decided the company needed radical change to survive," he says. I was aware that in 2 to 3 years the company would gradually lose market share. And in 10 years it could be bankrupt . . . I wanted to eliminate middle management layers. We had 30 companies in retailing, and I wanted to have one company."

Fatally Mr Pregl failed to take middle management with him, however.

Stanislav Valant, the new supervisory board chairman, says the strategy for Mercator "is still clear, it has not changed. But the pace has changed. And the question of divestments is a tough one."

He is seeking early negotiations with the banks once the financial results are published, to persuade them to continue their lending, but he accepts that the new management's room for manoeuvre is circumscribed. "It is a question of pace and getting people to participate. If you go too fast, you may not be successful."

Kevin Done

PROFILE **Sava**

Group makes fresh imprint

Years of patience finally paid off for Goodyear last December when the US tyremaker sealed two long-planned joint ventures with Sava, the Slovenian rubber group.

Sava, among the country's biggest exporters, is one of the first large local companies to cede control of much of its business to a foreign strategic investor and Goodyear's $120m investment is the biggest by a foreign company since Slovenia became independent in 1991.

The good news for Goodyear is that Sava, which plans to list within a year, performed unexpectedly well last year. Net profits more than quadrupled to 1.4bn tolars ($8.43m) from 247m tolars in 1996 on turnover of 35.6bn tolars (31bn tolars).

Exports accounted for some 83 per cent of sales and, for the first time, the company, based at Kranj, 30km north of Ljubljana, passed the 4m passenger tyre mark, producing 4.35m over the year. It plans to double this figure within a decade.

"We did well on cost reductions, making better use of time and materials but above all we benefited from good market conditions, says Emil Vizovisek, vice president.

Goodyear has taken a 60 per cent stake in the tyre venture, due to begin this summer, for about $107m cash, and a 75 per cent stake in an engineered rubber products venture that started in January.

The tyre venture will absorb about 2,000 of Sava's 3,300 workforce – down from the 4,800 of 10 years ago – with about 200 going to the engineered products company.

The remainder will stay with Sava itself which will use the funds paid by Goodyear to restructure and expand its other interests which range from conveyor belts to scooter tyres and rubber plates for printing.

The engineered products venture will see Goodyear producing transmission belts, air springs and hoses in Europe for the first time.

In securing the deal, Goodyear edged out Sava's long-time partner, Continental of Germany which had held a 27.8 per cent stake in the tyre operations. Its stake has been bought for an undisclosed amount.

Mr Vizovisek says access to new technology and marketing, as well as Goodyear's willingness to invest in the engineered products venture were among the factors in its favour.

Some $36m is to be invested in the latter over six years, while a $100m eight year investment programme is planned for tyres.

But perhaps the most important factor was the US company's global reach.

"From Slovenia, you cannot play a global role. Normally companies that do have large domestic markets," he says, adding that even some of the world's top ten producers will struggle to compete globally in the long-term. "So we decided we had to go with one of the top three."

V.M

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